

Erste Group Bank AG

Key Rating Drivers

Business Profile Drives Ratings: Erste Group Bank AG's ratings are underpinned by its well-established universal-banking business model with a leading franchise in retail and SME banking in Austria and central and eastern Europe (CEE). The ratings also factor in 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 weaker operating environment compared with that of peers that solely focus on Austria.

Diversified Business Profile: Erste's universal-banking business model with a leading franchise in retail and SME banking in Austria and its strong market position in CEE countries provide broad diversification and earnings enhancement to the group's overall credit profile. Fitch Ratings believes that these markets will continue to deliver good risk-adjusted returns over the economic cycle. The bank's consistent strategic commitment to the region underpins our assessment of the group's business profile.

Established Risk Procedures: Erste applies uniform risk standards adapted to local market conditions across its portfolio. Credit standards are prudent and in line with market practice in Austria but are more stringent than local peers' in CEE combined with thorough risk controls. This contributes to a balanced risk profile across geographies and sectors. Structural interest rate and foreign-currency risks are modest, but political risks, such as the implementation of windfall taxes, remain a source of unpredictability.

Resilient Asset Quality: Erste's asset quality was resilient despite slower economic growth, rising interest rates and high inflation, including in CEE countries. We expect the impaired loans ratio to moderately increase in the next two years due to lagged economic effects on corporates and households' financials. We estimate Erste's four-year average impaired loans ratio to remain below 4%, commensurate with an asset quality score of 'bbb+', as asset quality benefits from adequate loan book collateralisation, adequate diversification and comfortable impaired loans coverage.

Higher Rates Drive Profitability: Erste's operating profit/risk-weighted assets (RWAs) ratio increased to an exceptionally high 3.3% in 1H23 due to very strong net interest income (NII) on the back of very sound operating margins, despite higher administrative expenses. A particularly positive contribution came from CEE countries, where rates rose earlier and to higher levels compared to Austria.

We expect profitability to moderate over the next two years because of cost inflation and higher loan impairment charges (LICs). However, Erste's earnings are likely to benefit from loan growth, given the expected economic recovery in its core regions. We expect the group's four-year average operating profit/RWA ratio to remain above 2% over the cycle.

Adequate Capitalisation: Erste's fully loaded common equity Tier1 (CET1) ratio of 14.9% at end-1H23 is commensurate with the group's risk profile, providing an adequate buffer over regulatory requirements. We expect Erste's core capitalisation to remain above the bank's 13.5% target to accommodate its capital return policy, including share buy-backs of EUR300 million in 2023. Erste's leverage ratio of 6.2% at end-1H23 is higher than large European peers'.

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	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

[Bank Rating Criteria \(September 2023\)](#)

Related Research

[Fitch Affirms Erste Group at 'A'; Stable Outlook \(October 2023\)](#)

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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, indicating a weakening of Erste's business profile, would lead to a downgrade.

We would also downgrade the ratings if the CET1 ratio falls sustainably below its 13.5% target. 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 further improvement of its operating environment in CEE, stronger earnings and higher capital ratios, while keeping the current strong asset-quality metrics.

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 lower of the two short-term ratings mapping to a Long-Term IDR of 'A' and reflects the group's funding and liquidity score of '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

Erste Group Bank AG							ESG Relevance:	Banks Ratings Navigator		
Operating Environment	Business Profile	Risk Profile	Financial Profile				Implied Viability Rating	Viability Rating	Government Support	Issuer Default Rating
			Asset Quality	Earnings & Profitability	Capitalisation & Leverage	Funding & Liquidity				
	20%	10%	20%	15%	25%	10%	aaa	aaa	aaa	AAA
							aa+	aa+	aa+	AA+
							aa	aa	aa	AA
							aa-	aa-	aa-	AA-
							a+	a+	a	A+
							a	a	a	A Sta
							a-	a-	a-	A-
							bbb+	bbb+	bbb+	BBB+
							bbb	bbb	bbb	BBB
							bbb-	bbb-	bbb-	BBB-
							bb+	bb+	bb+	BB+
							bb	bb	bb	BB
							bb-	bb-	bb-	BB-
							b+	b+	b+	B+
							b	b	b	B
							b-	b-	b-	B-
							ccc+	ccc+	ccc+	CCC+
							ccc	ccc	ccc	CCC
							ccc-	ccc-	ccc-	CCC-
							cc	cc	cc	CC
							c	c	c	C
							f	f	ns	D or RD

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 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 several CEE markets.

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

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

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

Company Summary and Key Qualitative Factors

Operating Environment

Erste's score for the operating environment (OE) is below the implied score and the score assigned to Austrian domestic banks to reflect Erste's international operations in countries with weaker OE scores than Austria.

Erste's OE score is the average of the OE scores of its markets of operations, using loan exposures as weights. The OE score reflects the group's operations across CEE, including countries with more volatile and less advanced economies and modestly developed banking sectors and capital markets.

Sovereign Rating Revised to Stable From Negative

Fitch has revised the Outlook on Austria's Long-Term IDR to Stable from Negative and affirmed the IDR at 'AA+' in September 2023 on diminishing energy supply risks. The economic environment in Austria and CEE countries weakened throughout 2022, triggered by inflation, higher interest rates and faltering private consumption and reluctant corporate investments. Fitch believes that the current economic downturn will take longer to be resolved and has revised down the forecast for Austria in 2024 to 1.2% from 1.5%. We expect growth to pick up again to 1.6% in 2025. We expect that this year's small negative output gap will be closed by 2026, and real GDP growth should approach potential growth of around 1.3% in the medium term.

Business Profile

Erste's business model benefits from its strong franchise, with focus on retail and SME lending, and geographic diversification across its core Austrian and CEE markets. Erste has leading market shares in Austria and is one of the largest banks in CEE, with leading market shares in the Czech Republic, Romania and Slovakia, and smaller retail and corporate operations in Croatia, Hungary and Serbia. The majority of loans and deposits are in Austria, but a significant share of operating profits (about 45% in 6M23) are generated in CEE given that returns in these markets – albeit being more volatile in the past – are generally stronger than in Austria. The bank's strong market position, scale and conservative risk profile in CEE markets also underpins the group's strong business profile.

Erste Group Bank AG, the group's listed parent bank, manages the group in its function as the Austrian savings banks' central institution 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).

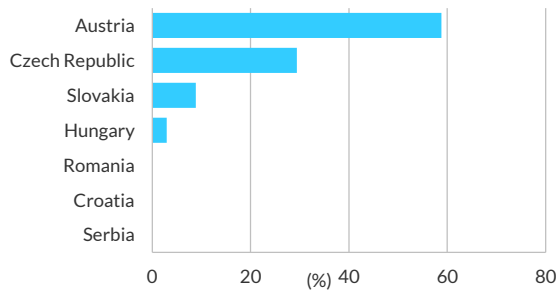
Erste consolidates all savings banks as it controls all scheme members via its 63.5% stake in the scheme's steering company. The mutual support scheme sets, monitors and enforces common risk policies upon all members. In exchange, it supports troubled members by guaranteeing certain liabilities. Support 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 core importance for the group. Historically, local CEE market performances can differ substantially from one another, reflecting economic and market developments, as well as regulatory or government interventions (such as changes to the underlying tax regimes introduced in Hungary, Croatia and the Czech Republic in 2022). However, we believe that the sound profitability of the CEE banking sector underpins Erste's strong long-term commitment to its core region.

Erste plans to grow primarily organically in CEE, but also screens the market for bolt-on M&A opportunities and portfolio acquisitions. For example, it bought a EUR1.9 billion loan portfolio from failed Sberbank CZ in November 2022 through its Czech subsidiary. Increased emphasis is also put on digital offerings where the bank's proprietary retail platform George has been rolled out to six markets, attracting more than 9.2 million customers at end-1H23.

Pre-Tax Profits Split by Geography

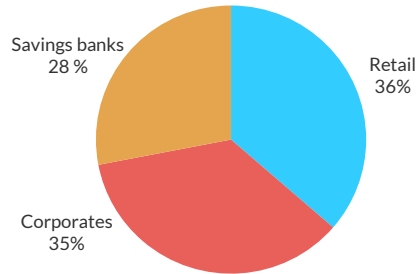
Average 2020 - 1H23



Source: Fitch Ratings, Fitch Solutions, Erste Group Bank AG

Loan Split by Segment

1H23



Source: Fitch Ratings, Fitch Solutions, Erste Group Bank AG

Risk Profile

Erste's risk profile is fairly conservative, with a focus on core banking services, and is positively impacted by its sizeable and granular savings banks and CEE retail exposures. Higher business risks from more volatile sources such as trading or investment in risky financial assets, such as leveraged loans, are modest.

Erste's generally prudent risk appetite is supported by tightly monitored credit standards. These are broadly in line with market practice in Austria, but are more stringent than local peers' in CEE. Erste's risk-management framework is also underpinned by the group's centralised risk controls. Except for euro-denominated loans in Serbia, lending in CEE is generally extended in local currency, although euro loans are permitted to clients with matching euro income. This approach contributed to a high share of performing loans in recent years across its geographic sphere.

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 mortgage loans in the bank's retail portfolio is high compared to European peers, and Erste has increased scrutiny on household affordability. However, despite interest-rate-induced increased vulnerabilities, we do not expect a surge in loan defaults. This is because the proportion of buy-to-let mortgages in the portfolio is low, demand overhang should mitigate significant corrections in property valuations, and we do not expect unemployment rates to rise materially in Erste's core markets.

Erste's corporate loan book is SME-heavy but well diversified by sector. Its exposure to commercial real estate lending (EUR13.1 billion at end 1H23) is well below 10 % of its loan book and is adequately collateralised, which should limit the impact of rising interest rates on this portfolio. The portfolio includes predominantly income-producing assets; the share of real estate developments is very low. Erste's EUR9.1 billion residential portfolio includes a EUR4.6 billion exposure to Austrian non-profit housing associations, which we consider lower-risk.

Financial Profile

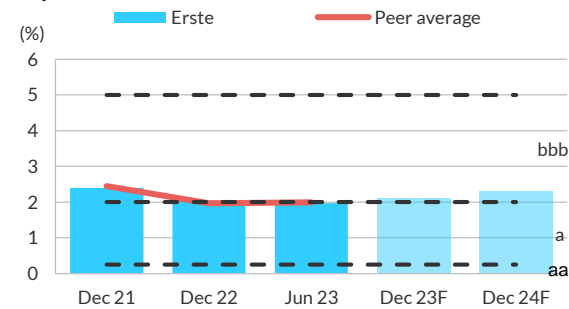
Asset Quality

Erste maintained a low impaired loan ratio (including purchased or originated credit impaired loans) throughout the past few quarters despite notable challenges from the weaker operating environment. The bank reported an impaired loan ratio of 2.0% at end-1H23, which is a historically low level.

Impaired loans are almost fully covered by loan loss allowances, with a coverage ratio of 97% at end-1H23, excluding collateral. Loan loss allowances have remained high, reflecting the bank’s prudent policy to implement precautionary provisions and forward-looking indicators. These were broadly unchanged in 1H23, amounting to about EUR900 million (or about 43bp of gross loans), reflecting largely potential credit losses from a deterioration of the macroeconomic environment.

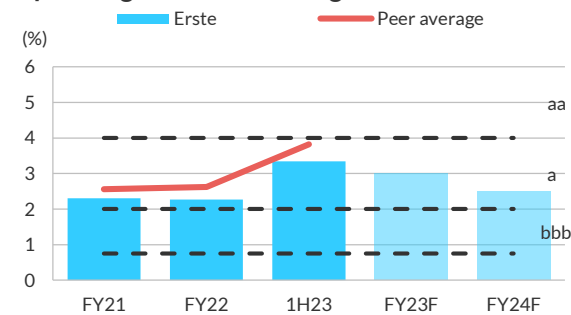
Based on strong credit performance in 1H23, Erste revised down its 2023 risk cost guidance to 10bp of average gross customer loans – from previously up to 25bp. Fitch expects impairments and rating migrations to drive LICs up to about 30bp over the next years, due to a weaker operating environment, high inflation and deteriorating credit conditions. We expect the impaired loans ratio to increase from its current low; however, we expect it will remain below 3% of gross loans on average.

Impaired Loans/Gross Loans



Source: Fitch Ratings, Fitch Solutions, Banks

Operating Profit/Risk-Weighted Assets



Source: Fitch Ratings, Fitch Solutions, Banks

Earnings and Profitability

Erste’s profitability increased over the past three years on a combination of high loan growth, rising interest rates, increasing fee income and low risk costs. Over the cycle, we expect Erste’s operating profit/RWAs ratio to increase to about 2.5%.

Most recently, NII has been the strongest revenue driver, rising 26 % yoy in 1H23, and driving Erste’s operating return on RWAs to an unsustainably high 3%. The increase in NII reflected the benefit from rising interest rates in the eurozone, while deposits were repriced gradually, supporting higher net interest margins. In addition, Erste’s loan book benefits from a substantial share of floating-rate loans, which repriced rapidly. We expect NII increase to peak in 2024, as deposit pricing already slowly increased in 2H23.

Net commission income also rose, driven by higher securities and asset management fees and payment services – albeit at a notably lower rate. Trading revenues, which are not a key driver of Erste’ financial performance, also reversed a negative contribution a year earlier.

Total non-interest expenses increased 9% yoy in 1H23, due to cost inflation, mainly driven by rising personnel expenses based on higher collective salary agreements and higher IT costs across regions to support digitalisation. We believe the group’s cost base will evolve broadly in line with inflation, but believe there are limited opportunities for significant reductions on the group’s long-term growth strategy. However, we believe Erste is likely to reach its cost/income ratio of 50% in 2023, given strong revenue generation. Maintaining this cost/income level sustainably over the next years will depend on the bank’s ability to contain cost inflation.

Capital and Leverage

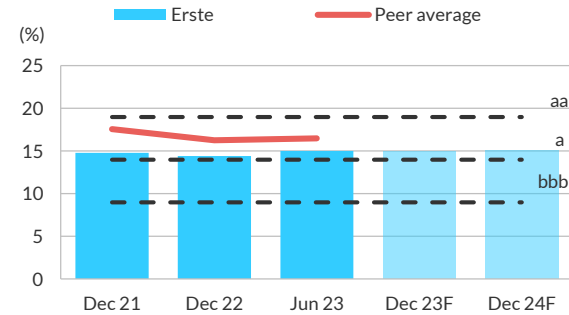
We view Erste’s capitalisation as appropriate for its risk profile. Erste’s capitalisation benefits from its control over the mutual support scheme which, under EU regulation, exempts the group from deducting EUR6.2 billion of minority interests in the Austrian savings banks from the group’s CET1 capital.

Erste reported a CET 1 ratio of 14.9% at end-1H23 (including interim profit; end-2022: 14.2%), which is in line with its target of the ratio being in excess of 13.5%.

Erste's improved profitability has enhanced its already sound organic capital generation as has its dividend pay-out ratio, targeted at 40%–50% of reported net profit to accommodate the group's loan growth targets. We also believe the bank would implement capital-enhancing countermeasures should the CET1 ratio fall close to its target minimum.

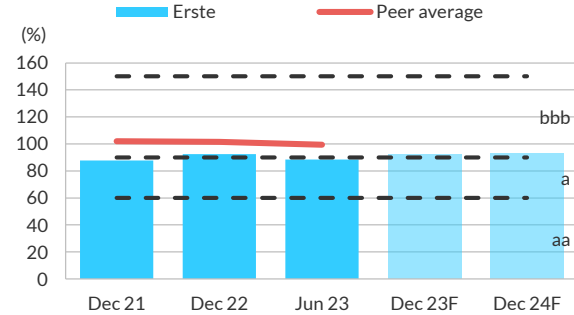
Erste's leverage ratio of 6.2% compares favourably with that of large European peers', driven by the CEE operations' higher RWA density and the Austrian savings banks' use of the standardised approach for calculating credit risk RWAs.

CET1 Ratio



Source: Fitch Ratings, Fitch Solutions, Banks

Gross Loans/Customer Deposits



Source: Fitch Ratings, Fitch Solutions, Banks

Funding and Liquidity

Erste's funding is primarily underpinned by the group's leading deposit franchises in its core markets, particularly in Austria, where it sources over half of its client deposits. Erste also reported deposit growth in the CEE region in recent quarters, owing to higher local rates. Customer deposits, of which more than 60% are sourced from retail clients, increased 7.6% year-to-date (fully matching loan growth), and reached a record total of EUR241 billion.

In line with most peers', interbank deposits declined to EUR25.7 billion end-1H23 (end-1H22: EUR36.7 billion), resulting primarily from Erste's TLTRO repayments. Reliance on this funding source has decreased significantly since 2005, falling from about 22% of the group's total liabilities to around 7% at end-1H23. We expect Erste's liquidity to remain strong, based on a rising portfolio of highly liquid assets over the recent quarters (EUR104 billion), underpinning a liquidity coverage ratio of 149% at end-1H23.

Erste's wholesale funding requirements are low, as its local franchises in CEE are largely deposit-funded and have excess liquidity in local currencies. The group's parent will continue to issue most wholesale funding. At the same time, the CEE subsidiaries should continue to issue all together up to EUR6.0 billion over the next three years, to meet their resolution buffer requirements. We view this as manageable, even in the higher interest rate environment.

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.

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 Ceska Sporitelna, a.s. (VR: a), KBC Group NV (a), UniCredit S.p.A. (bbb), Danske Bank A/S (a+), ING Groep N.V. (a+).

Financials

Financial Statements

	30 Jun 23		31 Dec 22	31 Dec 21	31 Dec 20
	6 months - interim (USDm)	6 months - interim (EURm)	Year end (EURm)	Year end (EURm)	Year end (EURm)
Summary income statement					
Net interest and dividend income	3,895	3,584.5	5,979.7	5,008.9	4,794.7
Net fees and commissions	1,385	1,274.7	2,452.4	2,303.6	1,976.8
Other operating income	330	303.8	63.2	396.7	390.0
Total operating income	5,610	5,163.0	8,495.3	7,709.2	7,161.5
Operating costs	2,994	2,755.8	4,973.4	4,617.0	4,441.0
Pre-impairment operating profit	2,616	2,407.2	3,521.9	3,092.2	2,720.5
Loan and other impairment charges	-31	-28.9	299.5	158.8	1,294.8
Operating profit	2,647	2,436.1	3,222.4	2,933.4	1,425.7
Other non-operating items (net)	0	0.4	n.a.	n.a.	-57.7
Tax	476	438.5	556.1	525.3	342.5
Net income	2,171	1,998.0	2,666.3	2,408.1	1,025.5
Other comprehensive income	326	299.8	-119.3	-6.1	-161.4
Fitch comprehensive income	2,497	2,297.8	2,547.0	2,402.0	864.1
Summary balance sheet					
Assets					
Gross loans	226,917	208,831.8	206,043.4	184,205.6	170,053.4
- Of which impaired	4,474	4,117.0	4,210.0	4,415.0	4,599.0
Loan loss allowances	4,324	3,979.0	3,981.0	3,938.0	4,003.0
Net loans	222,593	204,852.8	202,062.4	180,267.6	166,050.4
Interbank	36,382	33,482.5	18,481.5	21,001.3	21,466.2
Derivatives	1,626	1,496.4	1,839.6	2,338.1	3,164.9
Other securities and earning assets	70,926	65,272.9	59,694.9	52,503.2	45,365.7
Total earning assets	331,527	305,104.6	282,078.4	256,110.2	236,047.2
Cash and due from banks	35,651	32,809.8	35,684.8	45,495.4	35,838.5
Other assets	6,605	6,078.3	6,101.8	5,822.6	5,508.0
Total assets	373,782	343,992.7	323,865.0	307,428.2	277,393.7
Liabilities					
Customer deposits	256,460	236,020.4	222,574.5	209,895.4	189,801.4
Interbank and other short-term funding	37,761	34,751.2	35,162.8	34,749.6	27,592.3
Other long-term funding	39,798	36,626.2	30,959.8	29,894.1	29,124.4
Trading liabilities and derivatives	3,379	3,109.7	3,636.2	2,783.1	2,813.9
Total funding and derivatives	337,397	310,507.5	292,333.3	277,322.2	249,332.0
Other liabilities	7,335	6,750.4	6,227.0	6,592.6	5,651.4
Preference shares and hybrid capital	2,430	2,236.2	2,236.2	2,236.2	2,733.0
Total equity	26,620	24,498.6	23,068.5	21,277.2	19,677.3
Total liabilities and equity	373,782	343,992.7	323,865.0	307,428.2	277,393.7
Exchange rate	USD1 = EUR0.920302		USD1 = EUR0.937559	USD1 = EUR0.884173	USD1 = EUR0.821963

Source: Fitch Solutions, Fitch Ratings, Erste

Key Ratios

	30 Jun 23	31 Dec 22	31 Dec 21	31 Dec 20
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	3.3	2.3	2.3	1.2
Net interest income/average earning assets	2.5	2.2	2.0	2.0
Non-interest expense/gross revenue	53.5	58.7	60.0	62.1
Net income/average equity	16.8	12.1	11.7	5.3
Asset quality				
Impaired loans ratio	2.0	2.0	2.4	2.7
Growth in gross loans	1.4	11.9	8.3	4.0
Loan loss allowances/impaired loans	96.7	94.6	89.2	87.0
Loan impairment charges/average gross loans	0.0	0.1	0.0	0.7
Capitalisation				
Common equity Tier 1 ratio	15.0	14.4	14.8	14.5
Fully loaded common equity Tier 1 ratio	14.9	14.2	14.5	14.2
Tangible common equity/tangible assets	6.6	6.6	6.5	6.6
Basel leverage ratio	6.2	6.6	6.5	6.7
Net impaired loans/common equity Tier 1	0.6	1.1	2.5	3.5
Funding and liquidity				
Gross loans/customer deposits	88.5	92.6	87.8	89.6
Gross loans/customer deposits + covered bonds	83.8	88.0	83.5	83.8
Liquidity coverage ratio	148.7	138.0	168.6	189.3
Customer deposits/total non-equity funding	76.1	76.3	75.6	76.0
Net stable funding ratio	140.0	139.1	150.2	n.a.

Source: Fitch Solutions, Fitch Ratings, Erste

Support Assessment

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+/ Stable
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

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.

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

Environmental (E) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
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

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

The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to result in a negative impact unless indicated with a '+' sign for positive impact. 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 ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI), the Sustainability Accounting Standards Board (SASB), and the World Bank.

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
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) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
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

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 highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

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For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.

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