

Banks Ratings Navigator		
Navigator date: February 2020		
Last rating action: 24 Jan 2020		
Sector Details:		
Bank sector:	Universal Commercial	
Region:	DM Europe	
Country:	Austria	
Country IDR:	AA+ Positive	
Last action:	22 Nov 19 Affirmed	
Country ceiling:	AAA	
Macro prudential indicator:	1	
Bank systemic indicator:	bbb	
Bank Rating History		
Viability Rating (VR)		
24 Jan 20	a	Affirmed
05 Feb 19	a	Upgrade
19 Feb 18	a-	Affirmed
Issuer Default Rating (IDR)		
24 Jan 20	A Stable	Affirmed
05 Feb 19	A Stable	Upgrade
19 Feb 18	A- Stable	Affirmed
Support Rating Floor (SRF)		
24 Jan 20	NF	Affirmed
05 Feb 19	NF	Affirmed
19 Feb 18	NF	Affirmed
Bar Chart Legend:		
Vertical bars = VR range of Rating Factor		
Bar Colors = Influence on final VR		
<div><div></div>Higher Influence</div>		
<div><div></div>Moderate Influence</div>		
<div><div></div>Lower Influence</div>		
Bar Arrows = Rating Factor Outlook		
<div><div></div>Positive</div>	<div><div></div>Negative</div>	
<div><div></div>Evolving</div>	<div><div></div>Stable</div>	
Peer Ratings bars = Count of banks		
78	DM Europe Universal Commercial	
3	Austria Universal Commercial	
Applicable Criteria & References		
Bank Rating Criteria (Oct 2018)		
Macro-Prudential Risk Monitor (Oct 2019)		
Short-Term Ratings Criteria (May 2019)		
Analysts		
Patrick Rioual (+49 69 768076 123)		
Marco Diamantini (+49 69 768076 114)		

Peer Ratings	Operating Environment	Company Profile	Management & Strategy	Risk Appetite	Asset Quality	Earnings & Profitability	Capitalisation & Leverage	Funding & Liquidity	Viability Rating	Support Rating Floor	Issuer Default Rating
aaa									aaa	AAA	AAA
aa+									aa+	AA+	AA+
aa									aa	AA	AA
aa-									aa-	AA-	AA-
a+									a+	A+	A+
a									a	A	A Stable
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	NF	D or RD

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		
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		
Policy banks		
Policy role		
Funding guarantees and legal status		
Government ownership		

Drivers & Sensitivities	
Strong Franchise; Sound Financials	Erste Group Bank AG's (Erste) ratings reflect its sound financial profile, strong execution of its consistent strategy, tightened risk appetite and diversified business model supported by leading franchises, favourable conditions and growth potential in its main core markets.
Benefits from Focus on Stronger CEE Markets	Erste's performance is exposed to political risk in its core central and eastern European (CEE) markets, but this is sufficiently mitigated by the sound margins prevailing in the region. We expect good pre-impairment profits with fairly moderate variability over the cycle.
Sound Organic Capital Generation	Erste's common equity Tier 1 ratio target of 13.5% solidly exceeds its regulatory requirements and is broadly commensurate with its risk profile. Increasingly balanced profit contributions from its CEE subsidiaries should support its capital ratios through the cycle.
Strengthened Risk Controls	Erste's robust centralised risk controls and fairly tight underwriting standards despite loan growth above market average in recent years have supported its asset-quality improvement. We expect loan impairments to start rising toward end-2020 from their current negligible level.
Modest Market Risk Exposure	Interest-rate and foreign-exchange risks are appropriately hedged. The high share of variable-rate loans in Erste's back book and monetary policy tightening in the Czech Republic and Romania ease the pressure on net interest margin from record-low interest rates in the eurozone.
MPE Preferred Resolution Strategy	Erste targets a multiple-point-of-entry (MPE) resolution strategy with a resolution group for each of its six EU core markets. We believe this would further limit intragroup contagion risk, which is already mitigated by the group's policy of largely self-funded CEE subsidiaries.
Stable Liquidity and Funding	Funding and liquidity is stable, benefiting from the group's leading retail deposit franchises in Austria, the Czech Republic and Slovakia. Erste's liquidity position is broadly in line with peers and benefits from the bank's strong liquidity reserve.
CEE Operating Environment Is Main Sensitivity	Erste's ratings would come under pressure if earnings and asset quality deteriorate, which could result from changes in market or economic conditions, if capital deteriorates from insufficient earnings retention or losses or if Erste's risk appetite increases materially.

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.

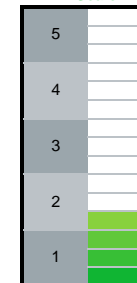
Overall ESG Scale

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

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	1	n.a.	n.a.
Energy Management	1	n.a.	n.a.
Water & Wastewater Management	1	n.a.	n.a.
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.
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

E Scale



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.

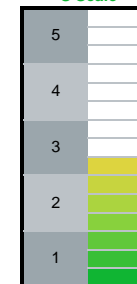
Classification of ESG issues has been developed from Fitch's sector and sub-sector ratings criteria and the General Issues and the Sector-Specific Issues have been informed with SASB's Materiality Map.

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

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference
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
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
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy
Employee Wellbeing	1	n.a.	n.a.
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

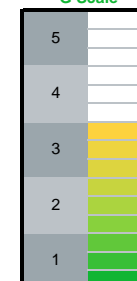
S Scale



Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Operational implementation of strategy	Management & Strategy
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
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy

G Scale



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.

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