

## Update: Erste Group Bank AG

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# Update: Erste Group Bank AG

## Ratings Score Snapshot

Global Scale Ratings
<b>Issuer Credit Rating</b>
A+/Stable/A-1
<b>Resolution Counterparty Rating</b>
AA--/A-1+

<b>SACP: a</b> →			<b>Support: +1</b> →		<b>Additional factors: 0</b>	
Anchor	bbb+		ALAC support	+1	<b>Issuer credit rating</b>	
Business position	Strong	+1	GRE support	0		
Capital and earnings	Adequate	0	Group support	0	<b>A+/Stable/A-1</b>	
Risk position	Adequate	0	Sovereign support	0		
Funding	Strong	+1			<b>Resolution counterparty rating</b>	
Liquidity	Strong				<b>AA-/A-1+</b>	
CRA adjustment	0					

ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

## Credit Highlights

Overview	
Key strengths	Key risks
Strong market position in Austria and Central and Eastern Europe (CEE), benefitting from an established franchise.	Credit quality tail risks, particularly in foreign markets, stemming from secondary effects from the war in Ukraine and a generally weaker economic environment and high inflation.
Solid liquidity and funding profile dominated by granular and sticky retail deposits and high liquidity buffers.	Relatively high reliance on interest income and low margins in the highly competitive Austrian banking sector.
Well-defined resolution framework across the group's entities and sound additional loss-absorbing capacity (ALAC) buffer to protect senior obligations in the event of nonviability.	

*Erste Group Bank has a well-managed business model with a strong franchise in retail, small and midsize enterprises (SMEs), and corporate banking across Austria and six core strategic countries in CEE.* The bank is not directly affected by the war in Ukraine because it does not have subsidiaries in Ukraine, Belarus, or Russia. That said, we expect the bank to experience knock-on effects because of higher uncertainties for its client base in certain sectors like manufacturing and construction. Elevated inflation rates are also a strain for borrowers' debt repayment capacities, particularly in the bank's retail segment.

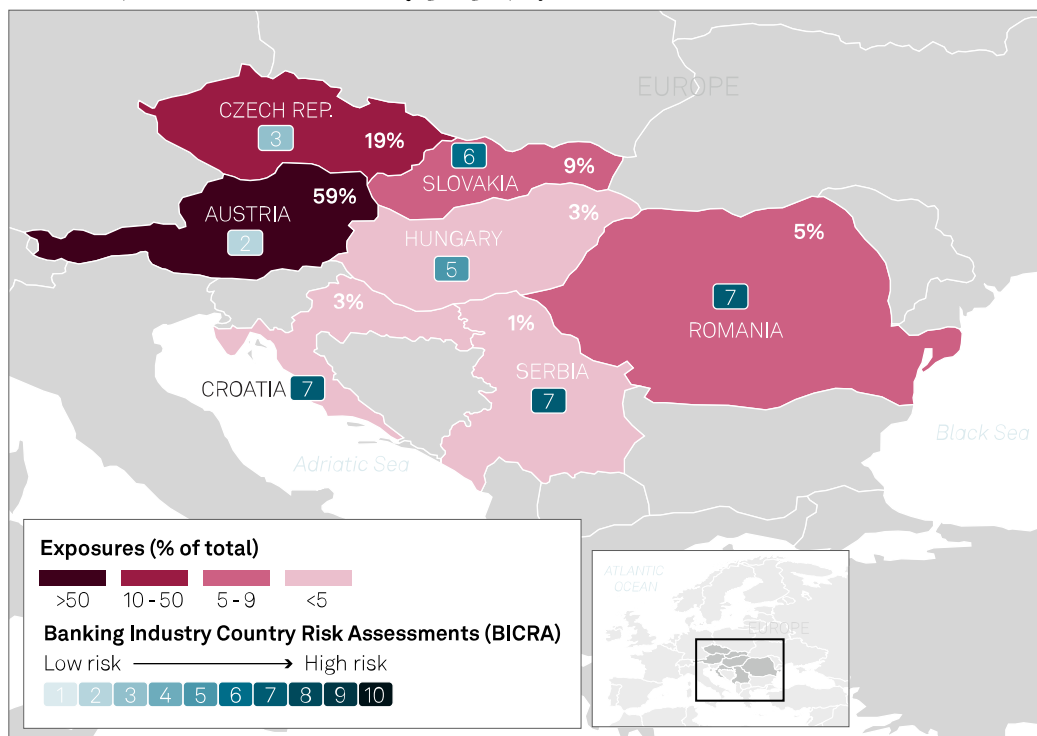
The management has continued its efforts to digitalize the bank, thereby helping to safeguard the customer base against changing consumer preferences and contributing toward its target to build a "financial health company". Diverging views about the timeline and approach to this transformation between the former CEO Bernd Spalt and the supervisory board of the bank led to Mr. Spalt's decision to leave the bank (see "Erste Group Can Manage The CEO's Unexpected Departure," published May 13, 2022, on RatingsDirect). Although that was a surprise, we think the group has a sound governance structure with a robust system of checks and balances. There is no critical dependence on individuals, and we therefore see low key person risks. The supervisory board appointed Willi Cernko as new CEO of the group, who has ample experience in banking and stands firmly behind the bank's current strategy.

With groupwide assets of €326 billion on March 31, 2022, Erste is one of the leading banks in Austria. The bank has a solid 20% market share in domestic retail loans and retail deposits. Thanks to its widespread operations, Erste will continue to benefit from good geographic revenue diversification, in our view, although we acknowledge some correlation among CEE countries and between CEE and Austria (see chart 1). While we acknowledge that some of the markets in CEE bear higher credit risks, we think the significant increase of interest rates in these markets and its positive impact on the group's interest income will largely offset unexpected credit losses and contribute to the bank's profits in the next 12-24 months. What's more, Erste Group has solid profitability and sound cost efficiency in the broader context of European peers (see chart 2).

Chart 1

**Erste Benefits From Geographical Diversification, But Risks Are Higher In CEE Countries**

Erste's exposures as of Q1-2022 by geography

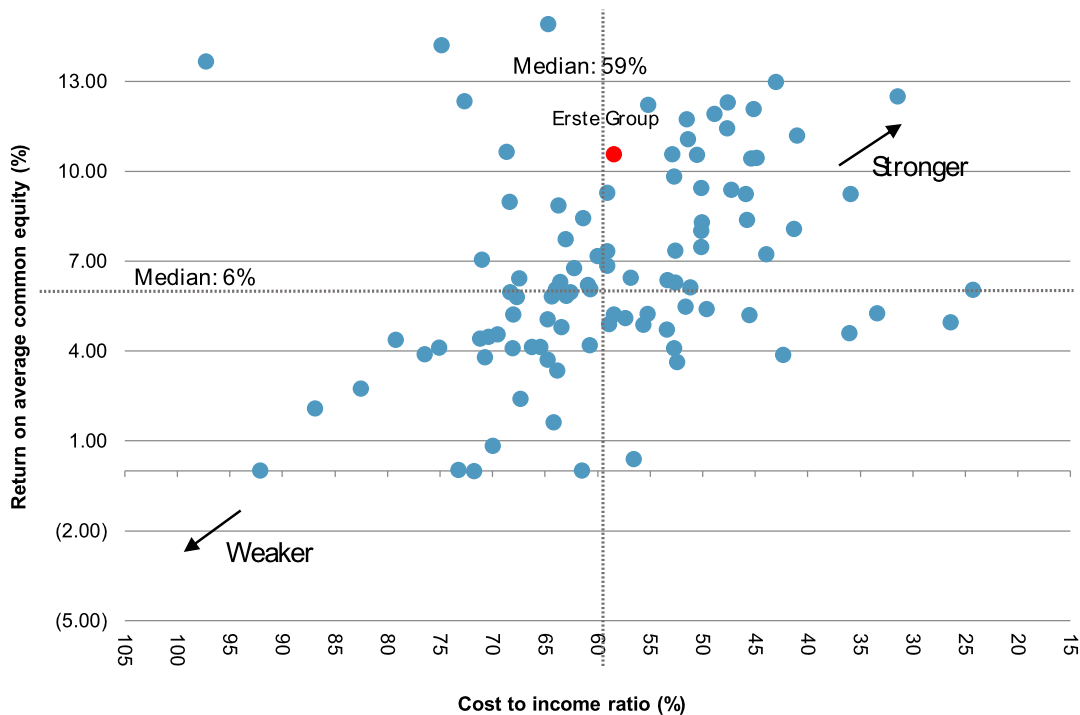


Note: Exposures defined as net customer loans. Source: S&P Global Ratings. Copyright © 2022 by Standard & Poor's Financial Services LLC. All rights reserved.

**Chart 2**

**Erste's Efficiency And Profitability Are Stronger Than Those Of International Peers**

2022f cost-to-income ratio and return on average common equity for European top 100 banks



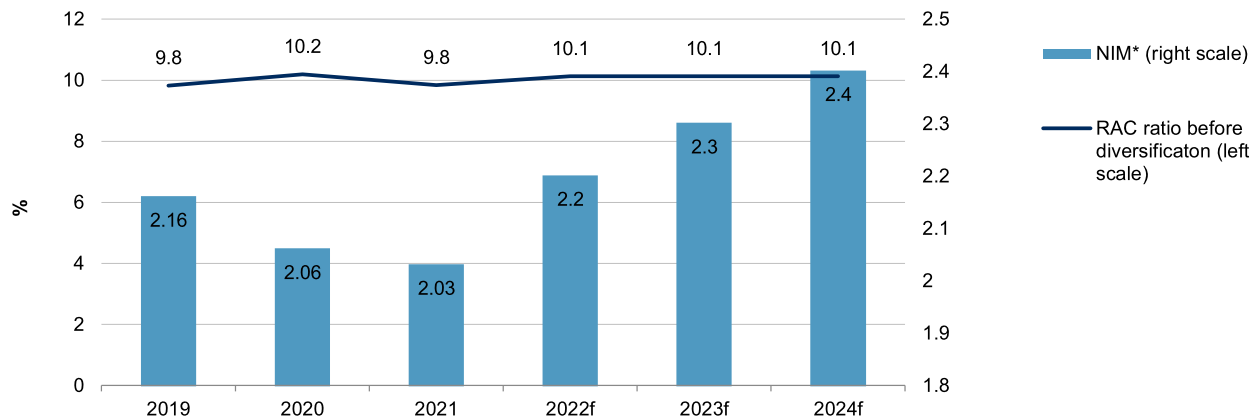
Grey lines show median values. Data as of July 7, 2022. Source: S&P Global Ratings.

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*We project that our main capital indicator, the risk-adjusted capital (RAC) ratio, on Erste will remain close to 10% in the next 12-24 months after reaching 9.8% as of Dec. 31, 2021 (see chart 3).* Our forecasts include our understanding that growth of the bank's retail and corporate lending will mainly be in lower-risk countries such as Austria, the Czech Republic, and Slovakia. Also, our projections consider robust profitability and capital retention, supported by higher net interest margins, particularly in CEE countries. We also expect Erste to keep a solid asset quality, with nonperforming assets (NPAs) being at a low of 2.5% by our measures as of March 31, 2022. We project moderate credit losses for 2022 of around 20 basis points., but we acknowledge downside risks to our current assessment (see chart 4).

**Chart 3**

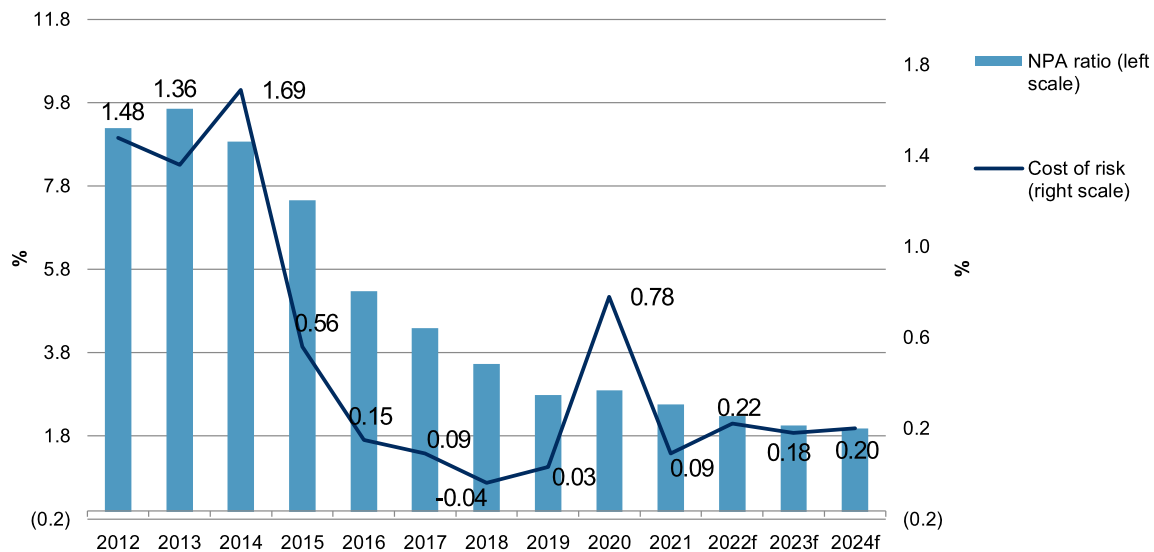
**We Expect Erste's RAC Ratio To Remain Close To 10% Also Thanks To Higher Net Interest Income**  
 Risk-adjusted capital (RAC) ratio and net interest margin (NIM)



f--Forecast. \*NIM--Net interest income-to-average earning assets. Source: S&P Global Ratings.  
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**Chart 4**

**Erste's Cost Of Risk Expected To Remain At A Moderate Level In Our Base Case**  
 NPA ratio and cost of risk between 2012 and 2024f



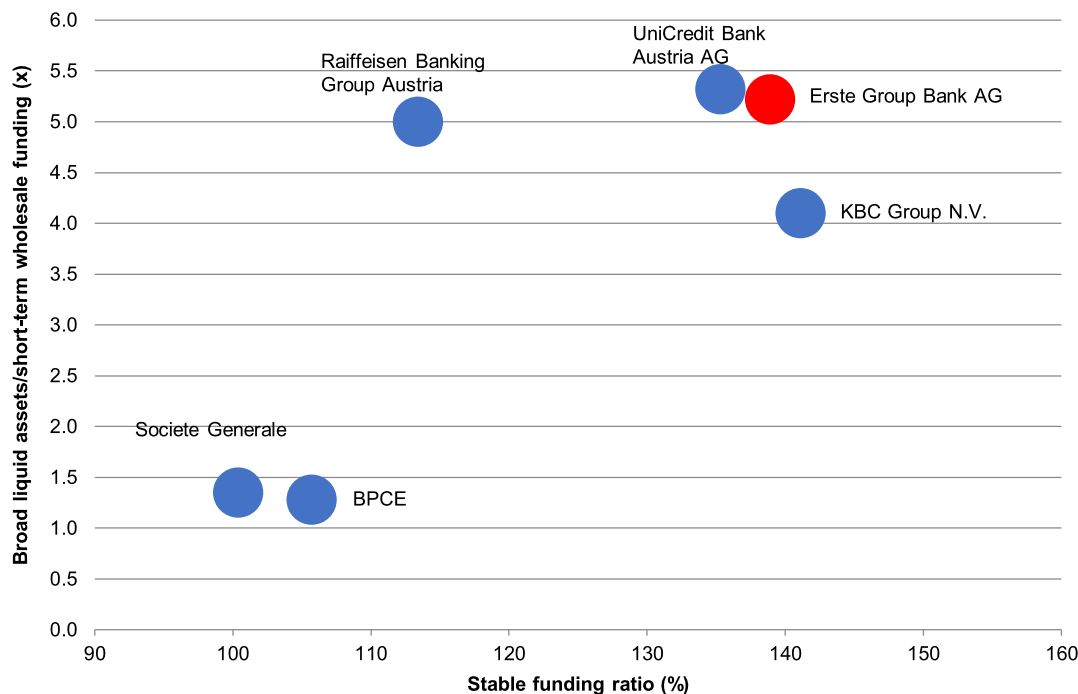
f--Forecast. NPA--Nonperforming asset. Cost of risk defined as new loan loss provisions as % of average customer loans. NPA ratio defined as gross nonperforming assets as % of customer loans + other real estate owned. Source: S&P Global Ratings.  
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Erste's funding situation continues to be a rating strength thanks to the group's large retail funding base in its core markets and its moderate reliance on wholesale funding (see chart 5). We expect that strong consolidated funding and liquidity ratios at the group level will also remain relevant at the main operating subsidiaries in CEE. We believe Erste can cope with extended market or idiosyncratic stress, as demonstrated during the pandemic and the start of the war in Ukraine.

### Chart 5

#### Erste Has A Stronger Funding And Liquidity Profile Than Its Peers

Funding and liquidity profile as of Dec. 31, 2021



Source: S&P Global Ratings.

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*The group is effectively operating under a multiple point of entry strategy, implying that each of the six resolution groups would enter a separate resolution path from its parent, in the unlikely scenario of nonviability.* The bank has strengthened its ALAC buffers, which provide protection to senior creditors in a resolution scenario. We expect Erste's ALAC ratio on the level of the Austrian Resolution Group to remain above 3% in the next 12-24 months and as such see sufficient protection of senior obligations in the unlikely event of nonviability of the Austrian entity.

## Outlook

The stable outlook on Erste reflects our view that, over the next 18-24 months, it will preserve a solid balance sheet, in particular sound asset quality metrics and strong liquidity buffers, despite macroeconomic uncertainties from the current war in Ukraine and residual risks from the pandemic. It also reflects our assumption that Erste will maintain solid profitability and capital build-up capacity.

### Downside scenario

We could lower our rating on Erste if we see a more material or prolonged setback for profitability and asset quality, particularly if the bank becomes loss-making. This would challenge our current view that Erste demonstrates superior resilience in difficult markets. We could also lower the rating if Erste's ALAC ratio decreases sustainably below the relevant 3% threshold within our forecast horizon.

### Upside scenario

Although unlikely, we could raise our rating if Erste materially strengthened its RAC ratio, while maintaining solid asset quality and sound cost efficiency. For an upgrade to happen, sustainable economic improvements in its main markets of operation, as well as easing pressure on profitability and the level of competition in the Austrian banking market, would also have to occur.

## Key Metrics

### Erste Group Bank AG--Key Ratios And Forecasts\*

	--Fiscal year ended Dec-31 --				
	2020a	2021a	2022f	2023f	2024f
Growth in operating revenue (%)	(1.6)	8.0	5.9-7.2	5.2-6.3	5.5-6.8
Growth in customer loans (%)	4.1	7.9	3.6-4.4	3.6-4.4	3.6-4.4
Growth in total assets (%)	12.9	10.8	2.7-3.3	2.6-3.2	2.6-3.2
Net interest income/average earning assets (NIM) (%)	2.1	2.0	2.1-2.3	2.2-2.4	2.3-2.5
Cost to income ratio (%)	61.2	58.7	57.0-59.9	56.6-59.5	56.0-58.8
Return on equity (%)	5.5	12.7	10.0-11.1	10.6-11.7	10.8-11.9
Return on assets (%)	0.4	0.8	0.6-0.8	0.7-0.8	0.7-0.9
New loan loss provisions/average customer loans (%)	0.8	0.1	0.2-0.2	0.2-0.2	0.2-0.2
Gross nonperforming assets/customer loans (%)	2.9	2.5	2.1-2.4	1.9-2.1	1.9-2.1
Net charge-offs/average customer loans (%)	(0.1)	0.0	0.0-0.0	0.0-0.0	0.0-0.0
Risk-adjusted capital ratio (%)	10.2	9.8	9.9-10.4	9.9-10.4	9.9-10.4

\*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast.

## Environmental, Social, And Governance

### ESG Credit Indicators

E-1	<b>E-2</b>	E-3	E-4	E-5	S-1	<b>S-2</b>	S-3	S-4	S-5	G-1	<b>G-2</b>	G-3	G-4	G-5
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ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumeric 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

## Key Statistics

**Table 1**

Erste Group Bank AG Key Figures					
--Year ended Dec. 31--					
(Mil. €)	2022*	2021	2020	2019	2018
Adjusted assets	324,273.2	306,065.9	276,034.8	244,324.5	235,284.8
Customer loans (gross)	186,863.4	181,966.6	168,648.4	161,964.6	151,443.8
Adjusted common equity	20,043.0	19,297.5	17,596.7	17,036.9	15,870.9
Operating revenues	2,037.2	7,734.5	7,161.9	7,280.3	6,730.0
Noninterest expenses	1,327.8	4,543.6	4,381.1	4,262.3	3,997.1
Core earnings	527.1	2,489.2	1,113.9	2,494.2	2,443.8

\*Data as of March 31.

**Table 2**

Erste Group Bank AG Business Position					
--Year-ended Dec. 31--					
(%)	2022*	2021	2020	2019	2018
Loan market share in country of domicile	20.8	20.8	20.8	20.8	20.4
Deposit market share in country of domicile	23.2	23.2	20.6	20.6	20.0
Total revenues from business line (currency in millions)	2,037.2	7,734.5	7,161.9	7,280.3	6,730.0
Commercial banking/total revenues from business line	24.2	22.4	21.8	22.0	22.6
Retail banking/total revenues from business line	45.6	44.4	45.4	48.5	51.5
Commercial & retail banking/total revenues from business line	69.8	66.8	67.2	70.5	74.2
Trading and sales income/total revenues from business line	10.4	7.8	7.4	7.4	7.9
Other revenues/total revenues from business line	19.8	25.4	25.4	22.1	17.9
Investment banking/total revenues from business line	10.4	7.8	7.4	7.4	7.9
Return on average common equity	11.2	12.7	5.5	10.7	13.7

\*Data as of March 31.



Table 3

Erste Group Bank AG Capital And Earnings					
	--Year-ended Dec. 31--				
(%)	2022*	2021	2020	2019	2018
Tier 1 capital ratio	15.4	16.2	16.5	15.0	14.3
S&P Global Ratings' RAC ratio before diversification	N/A	9.8	10.2	9.8	10.3
S&P Global Ratings' RAC ratio after diversification	N/A	10.5	11.0	10.5	10.9
Adjusted common equity/total adjusted capital	90.0	89.6	86.6	92.0	94.1
Net interest income/operating revenues	68.3	64.3	66.7	65.2	68.1
Fee income/operating revenues	30.2	29.8	27.6	27.5	28.4
Market-sensitive income/operating revenues	(0.7)	2.9	2.9	4.8	3.0
Cost to income ratio	65.2	58.7	61.2	58.5	59.4
Provision operating income/average assets	0.9	1.1	1.1	1.3	1.2
Core earnings/average managed assets	0.7	0.9	0.4	1.0	1.1

\*Data as of March 31. N/A--Not applicable.

Table 4

Erste Group Bank AG--Risk-Adjusted Capital Framework Data					
	Exposure*	Basel III RWA	Average Basel III RW(%)	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
<b>Credit risk</b>					
Government & central banks	97,270,932,021.3	2,946,355,401.4	3.0	8,622,019,568.2	8.9
Of which regional governments and local authorities	6,671,647,084.1	593,813,831.9	8.9	1,898,390,339.1	28.5
Institutions and CCPs	14,336,569,843.7	2,654,382,467.6	18.5	2,723,889,625.4	19.0
Corporate	126,699,009,151.5	64,468,966,344.3	50.9	101,861,410,110.5	80.4
Retail	108,136,321,619.8	26,030,515,106.4	24.1	56,504,208,014.0	52.3
Of which mortgage	62,817,034,448.6	11,404,454,579.0	18.2	20,244,274,925.8	32.2
Securitization§	1,366,208,367.9	186,730,707.4	13.7	642,018,478.2	47.0
Other assets†	13,616,479,090.8	3,275,078,589.1	24.1	17,919,252,612.3	131.6
Total credit risk	361,425,520,095.0	99,562,028,616.1	27.5	188,272,798,408.7	52.1
<b>Credit valuation adjustment</b>					
Total credit valuation adjustment	--	390,465,708.1	--	0.0	--
<b>Market Risk</b>					
Equity in the banking book	1,025,053,057.8	2,711,698,393.0	264.5	9,014,520,318.9	879.4
Trading book market risk	--	3,671,480,206.2	--	6,202,581,982.6	--
Total market risk	--	6,383,178,599.2	--	15,217,102,301.5	--
<b>Operational risk</b>					
Total operational risk	--	14,786,250,000.0	--	15,474,504,962.5	--

Table 4

Erste Group Bank AG--Risk-Adjusted Capital Framework Data (cont.)					
	Exposure	Basel III RWA	Average Basel II RW (%)	S&P Global Ratings RWA	% of S&P Global Ratings RWA
<b>Diversification adjustments</b>					
RWA before diversification	--	127,448,000,023.5	--	218,964,405,672.6	100.0
Total Diversification/ Concentration Adjustments	--	--	--	(13,507,569,486.1)	(6.2)
RWA after diversification	--	127,448,000,023.5	--	205,456,836,186.5	93.8
		Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global Ratings RAC ratio (%)
<b>Capital ratio</b>					
Capital ratio before adjustments		21,045,000,000.0	16.5	21,533,720,000.0	9.8
Capital ratio after adjustments‡		21,045,000,000.0	16.5	21,533,720,000.0	10.5

\*Exposure at default. §Securitization Exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of 'Dec. 31 2021', S&P Global Ratings.

Table 5

Erste Group Bank AG Risk Position	--Year ended Dec. 31--					
	(%)	2022*	2021	2020	2019	2018
Growth in customer loans		10.8	7.9	4.1	6.9	5.5
Total diversification adjustment/S&P Global Ratings' RWA before diversification		N/A	(6.2)	(7.0)	(6.8)	(5.3)
Total managed assets/adjusted common equity (x)		16.2	15.9	15.8	14.4	14.9
New loan loss provisions/average customer loans		0.1	0.1	0.8	0.0	0
Net charge-offs/average customer loans		0	0	(0.1)	(0.1)	(0.1)
Gross nonperforming assets/customer loans + other real estate owned		2.5	2.5	2.9	2.8	3.5
Loan loss reserves/gross nonperforming assets		84.8	83.2	81.4	69.5	64.7

\*Data as of March 31. N/A--Not applicable.

Table 6

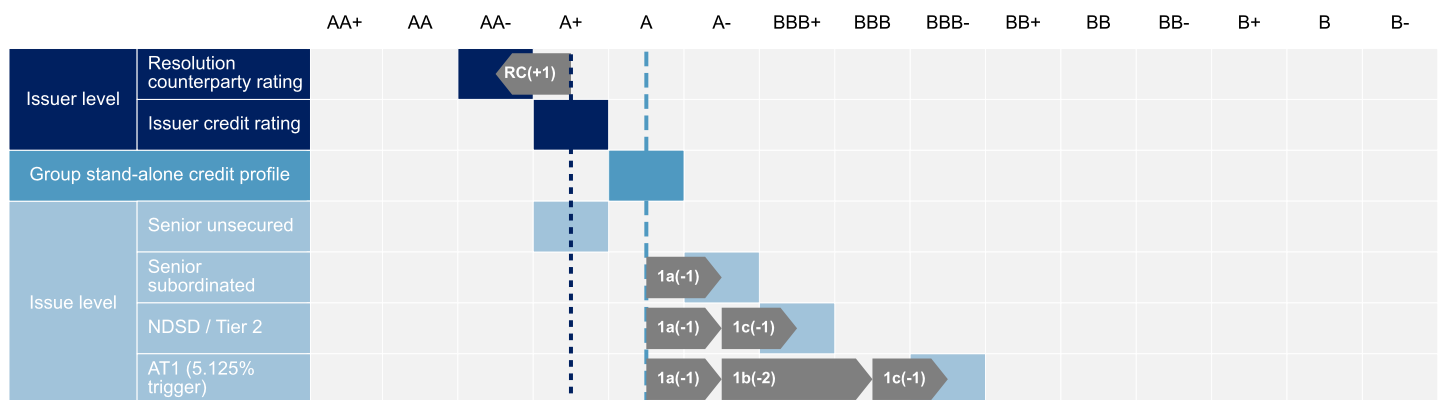
Erste Group Bank AG Funding And Liquidity						
Erste Group Bank AG Funding And Liquidity	--Year-ended Dec. 31--					
	(%)	2022*	2021	2020	2019	2018
Core deposits/funding base		74.5	76.1	76.6	78.9	76.5
Customer loans (net)/customer deposits		83.9	84.9	86.8	92.5	91.8
Long-term funding ratio		91.9	93.2	95.6	94.4	91.5
Stable funding ratio		139.1	138.9	140.2	125.8	126.1
Short-term wholesale funding/funding base		8.8	7.4	4.8	6.1	9.2
Broad liquid assets/short-term wholesale funding (x)		4.5	5.2	7.7	4.9	3.5
Broad liquid assets/total assets		35.9	34.6	33.2	26.8	29.1

Table 6

Erste Group Bank AG Funding And Liquidity (cont.)					
	--Year-ended Dec. 31--				
(%)	2022*	2021	2020	2019	2018
Broad liquid assets/customer deposits	53.6	50.7	48.5	38.3	42.7
Net broad liquid assets/short-term customer deposits	51.3	51.1	51.5	38.7	37.3
Short-term wholesale funding/total wholesale funding	33.4	29.8	19.7	28.2	38.5

\*Data as of March 31.

### Erste Group Bank AG: Notching



#### Key to notching

- Group stand-alone credit profile
- Issuer credit rating

RC Resolution counterparty liabilities (senior secured debt)

1a Contractual subordination

1b Discretionary or mandatory nonpayment clause and whether the regulator classifies it as regulatory capital

1c Mandatory contingent capital clause or equivalent

Note: The number-letter labels in the table above are in reference to the notching steps we apply to hybrid capital instruments, as detailed in table 2 of our "Hybrid Capital: Methodology And Assumptions" criteria, published on March 2, 2022.

AT1--Additional Tier 1. NDS--Non-deferrable subordinated debt. NVCC--nonviability contingent capital.

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## Related Criteria

- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Related Research

- Erste Group Can Manage The CEO's Unexpected Departure, May 13, 2022
- Six European Banks Upgraded On ALAC Or Group Support Uplift; Off UCO On Implementation Of Revised FI Criteria, Dec. 16, 2021
- Research Update: Erste Group Outlook Revised To Positive On Effective Resolution Strategy And Loss-Absorption Buffers; 'A/A-1' Affirmed, Sept. 29, 2021
- Banking Industry Country Risk Assessment: Austria, July 13, 2021

### Ratings Detail (As Of July 20, 2022)\*

#### Erste Group Bank AG

Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	AA-/--/A-1+
Commercial Paper	
<i>Local Currency</i>	A-1
Junior Subordinated	BBB-
Senior Subordinated	A-
Senior Unsecured	A+
Short-Term Debt	A-1
Subordinated	BBB+

#### Issuer Credit Ratings History

16-Dec-2021	A+/Stable/A-1
29-Sep-2021	A/Positive/A-1
29-Apr-2020	A/Stable/A-1
30-Oct-2017	A/Positive/A-1

#### Sovereign Rating

Austria	AA+/Positive/A-1+
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#### Related Entities

##### Erste Group Bank AG (Hong Kong Branch)

Commercial Paper	A-1
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\*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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