

Bulletin:

Erste Group Can Manage The CEO's Unexpected Departure

May 13, 2022

This report does not constitute a rating action.

FRANKFURT (S&P Global Ratings) May 13, 2022--S&P Global Ratings said today that the exit of Erste Group Bank AG's CEO is a surprising but manageable event.

On May 13, 2022, Erste (A+/Stable/A-1) informed in an ad-hoc disclosure that the CEO of the group, Mr. Bernd Spalt, will leave the bank due to differing views on the bank's long-term strategy. The bank also communicated that the supervisory board, and its nomination committee, would initiate a process to replace Mr. Spalt, whose contract ends June 30, 2023. We assume the bank will share more details at the annual general meeting on May 18, 2022.

We consider very unlikely that the CEO's decision to leave will hurt Erste's creditworthiness. In our view, the group has sound governance with a robust system of checks and balances. There is no critical dependence on key individuals, leading us to deem key person risks as low or immaterial. Furthermore, as one of the leading banks in Austria, Erste has a well-managed business model with a strong franchise in retail, small and midsize enterprises, and corporate banking across Austria and six core markets across Central Eastern Europe.

The bank reported a solid financial performance in first-quarter 2022, despite uncertainties from the Russia-Ukraine conflict. Erste has no direct exposure to the affected countries through subsidiaries. We understand credit risk exposures are limited. The bank projects full-year 2022 risk costs below 20 bps. Our estimate for 2022, slightly higher at no more than 30 bps, is still a well-manageable level. Given the unpredictability created by the war, we will closely monitor how fallout might affect our expectations for economic growth in Erste's core operating regions, as well as the potential repercussions on the banks' credit prospects.

We raised the issuer credit and debt ratings on Erste and its senior unsecured notes after reviewing the resolution strategy of large European banks (see "Six European Banks Upgraded On ALAC Or Group Support Uplift; Off UCO On Implementation Of Revised FI Criteria," published Dec. 16, 2021, on RatingsDirect). Erste and its subsidiaries have shown good progress on the resolution strategy and build-up of bail-in-able buffers in recent years. We see the group as effectively operating under a well-defined multiple-point-of-entry resolution framework, including plans and their potential execution. Under this framework, the group would separate into multiple resolution subgroups if parts of it become nonviable. We project that the Austrian subgroup's additional loss-absorbing capacity over S&P Global Ratings' risk-weighted assets (RWAs) will be at 3.5% by year-end 2023. RWAs correspond only to the businesses falling within the Erste's resolution

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