



ERSTE
Group

Towards net-zero

Climate Report | 2023

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At Erste Group, we believe that when money is managed and invested sustainably, it can change the world for good.

As one of the leading banking institutions in Central and Eastern Europe (CEE), we are dedicated to mobilising finance for a lower-carbon, more equitable and inclusive society.

This report outlines our progress and states our targets and actions as we transition towards net-zero operations and a net-zero portfolio by 2050. We are also in the process of aligning our approach to climate change mitigation, adaptation, risk management and reporting with the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD).

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ESG strategy overview

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Our strategic priorities

Our objectives

Our targets

Lead the green transition

Transition to a net-zero portfolio

Build leadership in green finance

Transition to net-zero operations

- 2023**
- > Climate-neutral operations and 90% green electricity in core markets
 - > 17 Ecolabel funds

- 2026**
- > 25% of our corporate portfolio is green

- 2027**
- > 15% of our retail housing portfolio is green

- 2030**
- > Net-zero operations

- 2050**
- > Net-zero portfolio

United Nations sustainable development goals supported



Our strategic priorities

Our objectives

Our targets

Promote social inclusion

Foster financial inclusion

Promote financial health and literacy

Invest in affordable housing

Support gender diversity and equality

- 2025**
- 37% share of women in top management and 40% share of women in other management positions

- 2030**
- For our social banking customers, we'll provide a total of:
- > €1 billion in social banking financing
 - > 200,000 jobs created or preserved
 - > 15,000 affordable, low-carbon housing units

United Nations sustainable development goals supported



Learn more about Erste Group's approach to ESG on our [website](#).

2022 highlights

Operations

82%
green electricity

An increase from 66% in 2021.

11% reduction

in total Scope 1 and 2 emissions
to 39,393 tonnes CO₂e.

Refer to [Annex \(1\)](#) for details.

Asset management

21.7%
share of ESG assets
under management

totalling €15 billion. An
increase from 20.1% in 2021.

16
Ecolabel
funds offered

Portfolio

€2.1 billion
green bonds issued.

€1.4 billion
energy-efficient real estate
assets financed.

€427 million
renewable energy assets financed.

**Decarbonisation
targets set**

for Power, Heat, Commercial Real
Estate (CRE) and Mortgage sectors.

Risk

**Successful
implementation**

of methods to assess and
manage climate risks and
comprehensive integration
of ESG into our risk
management framework.

2022 ESG ratings

ESG ratings meet
best-in-class standards



3

Our approach to climate action



Visegrád Mountains, Hungary

Our approach to climate action

We are committed to leading the green transition in Central and Eastern Europe (CEE)

Climate change is a global crisis, with the potential for catastrophic consequences unless immediate and substantial mitigation measures are implemented. The impacts of climate change threaten economic growth, social wellbeing and the achievement of many of the United Nations Sustainable Development Goals.

A successful net-zero transition is therefore vital to ensure long-term wellbeing, financial health and prosperity - for Erste Group, for our customers and for our region.

For more than 200 years, the aim of Erste Group has been to facilitate and secure prosperity. Ultimately, our purpose is to support the financial health of our customers, the prosperity of our region, and the wellbeing of all people in a changing world. Our strategic priorities are, therefore, twofold - to be a financial leader of the green transition and to promote social inclusion.

We are committed to our duty of financing and expediting the shift towards a carbon-neutral economy in Central and Eastern Europe. Erste Group is dedicated to both adapting to and mitigating climate change in alignment with the Paris Agreement. We therefore consider our impact on the environment in our strategy, financial products and decision-making.

Our commitments as a leading financial institution include reducing our operational and financed greenhouse gas (GHG) emissions and mobilising finance to accelerate the net-zero transition. We are playing our role to help limit global warming to 1.5°C and achieve net-zero by 2050 at the latest.



Erste Group was the first financial institution in our region to join the Net-Zero Banking Alliance.

This industry-led, UN-convened alliance brings together a global group of financial institutions that are committed to net-zero-aligned lending and investment by 2050. Together, the alliance represents over 40% of global banking assets.

Our climate strategy

As a bank with a strong sense of purpose, our climate strategy seamlessly aligns with Erste Group’s overarching business strategy. By helping our clients realise their own sustainability ambitions and promoting their financial health, we can take advantage of green growth opportunities, mitigate climate-related risks, and ultimately, support the long-term profitability of Erste Group. To this end, we collaborate and engage with our stakeholders, including our customers, investors, employees, policymakers and society more broadly.

The following four pillars structure our approach to climate change mitigation, adaptation and risk management. Ultimately, this approach aims to mobilise sustainable finance and accelerate the green transition across CEE.



Transition to net-zero operations

We are improving the energy usage of our buildings, reducing our transport emissions, including climate considerations in procurement, and promoting a culture of sustainability among our employees.



Integrate climate risks into bank risk management

By integrating climate and other environmental considerations into risk management, we support both our business and clients to become more resilient in a changing world.



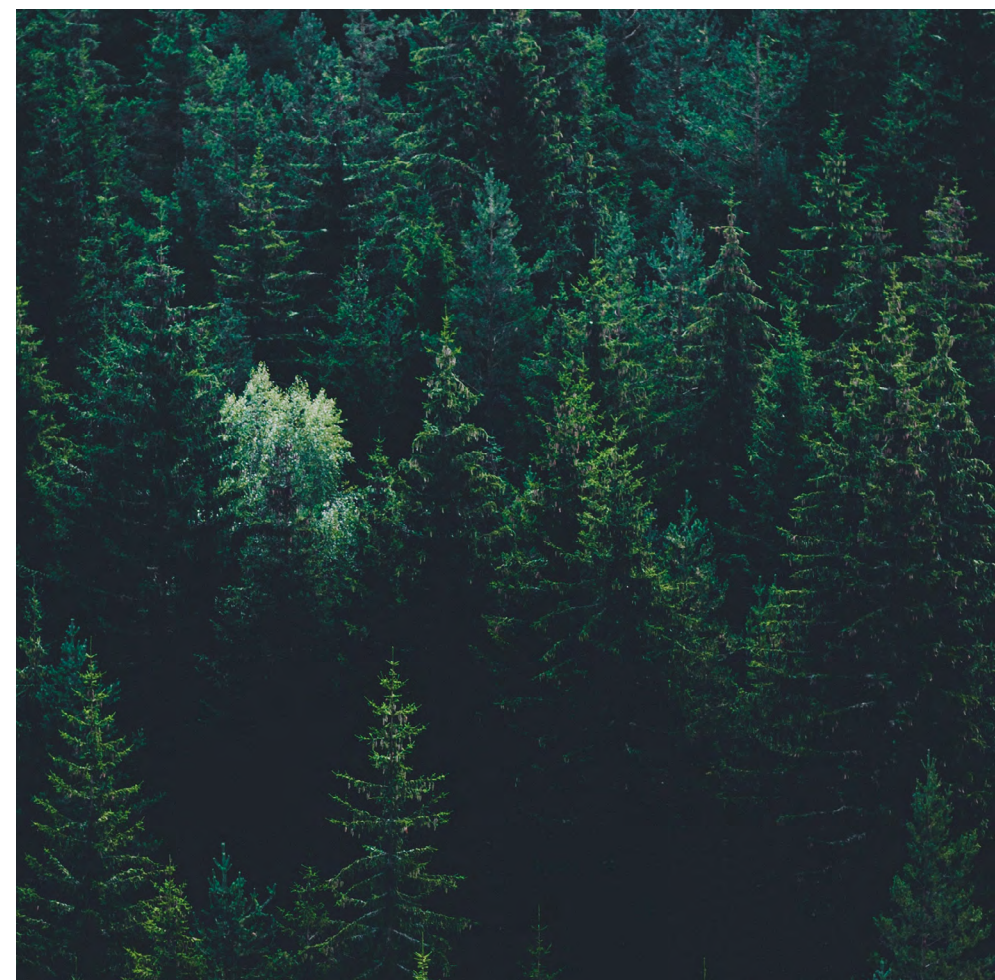
Sustainable asset management

As a leading financial intermediary in CEE, we support the mobilisation of capital for the transition towards a sustainable, low-carbon economy.



Transition to a net-zero portfolio

Our most significant impact as a banking institution is through our lending. We support our clients to implement their own climate transition plans, realise the opportunities of the green transition, and prepare for climate-related risks, including both physical and transition risks.



Leveraging opportunities and mitigating climate risks in CEE

The four pillars of our climate strategy intend to leverage green growth opportunities and mitigate the climate risks specific to our region.

CEE is committed to a fair and swift net-zero transition, alongside the European Union's European Green Deal. This range of policies is designed to steer the EU towards net-zero by 2050. It aims to facilitate a just and prosperous society and a modern and competitive economy. The EU's 'Fit for 55' package targets to reduce net greenhouse gas emissions by at least 55% by 2030 and ensure that policies align with this goal.

As part of this transition, finance flows must be made consistent with a low-emissions and climate-resilient future. Public funds, such as the EU Innovation Fund and the Just Transition Fund, require supplementation of approximately €30 billion by the private sector each year until 2030. Erste Group is well-positioned to take advantage of the enormous opportunities arising during this time of transformation.

Our climate strategy contributes to and aligns with the realisation of our region's climate action priorities, including:

1

Energy efficiency measures

Buildings in CEE are generally less energy efficient than the rest of the EU. This presents a significant opportunity to decrease emissions, while also reducing the cost of living and improving the liveability of housing.

Heat

Heat-related environmental changes and health challenges disproportionately impact low-income and vulnerable populations. This is particularly felt in the South and in large cities across the region.

2

Decarbonisation of industry

CEE must reduce emissions from carbon-intensive manufacturing, decrease dependency on coal and increase the availability, transmission and storage of renewable energy. This creates opportunities to drive finance towards sustainable technologies and renewable energy, while also supporting the climate transition efforts of our emissions-intensive customers.

Agriculture

Drought, excessive rain, pests and heat impact crops, livestock, and forest productivity. Crop yields will be more severely affected in our Southern markets.

3

Improved land use

Sustainable land management practices, including best-practice agriculture and reduced deforestation, can support CEE's land-based carbon sinks.

Water scarcity

Shifting weather patterns are reducing the availability of safe drinking water, sanitation, and hygiene across the region. Water-sensitive industries such as energy, paper and agriculture are particularly impacted.

4

A fair transition

The economic and social costs of a net-zero transition are not necessarily distributed fairly. This can create inequality and divisiveness, and reduce public support for essential climate action. It is our shared responsibility of all of us to support a fair transition that leaves no one behind.

Flooding

Our region will face the effects of increased river floods and flash-flood events. If warming exceeds 3°C, damage may double. Extreme flood events will be particularly hazardous in urban areas.

Ultimately, our climate strategy supports our region's capacity to mitigate and adapt to climate change and its key risks, as identified by the Intergovernmental Panel on Climate Change (IPCC).

These risks include:

Milestones



2017

Operational CO₂e footprint calculated and disclosed for the first time.

2021

Erste Group joined the Net-Zero Banking Alliance.

Sustainable Financing Framework developed.

First Green Bond issued.

Erste Group received our first CDP Rating: B



2022

2023

90% green power in core markets.

First portfolio targets set for the Power, Heat, Commercial Real Estate (CRE) and Mortgage sectors.

Erste Group partners with the International Commission for the Protection of the Danube River (ICPDR) to raise awareness and protect the river against threats of pollution and climate change.

Climate neutral operations achieved across core markets.

2024

Set decarbonisation targets for the Automotive, Upstream Oil and Gas, Iron, Steel, and Cement sectors.

Develop biodiversity financing criteria to support both our biodiversity and climate efforts.

2025

Review clients' coal transition plans.

25%
of our corporate portfolio is green.

2026

2027

15%
of our retail housing portfolio is green.

2030

Net-zero operations.

100%
e-cars used across our core markets.

100%
of coal phased out from our portfolio.

15,000
low-carbon, affordable housing units.

2050

Net-zero portfolio.

4



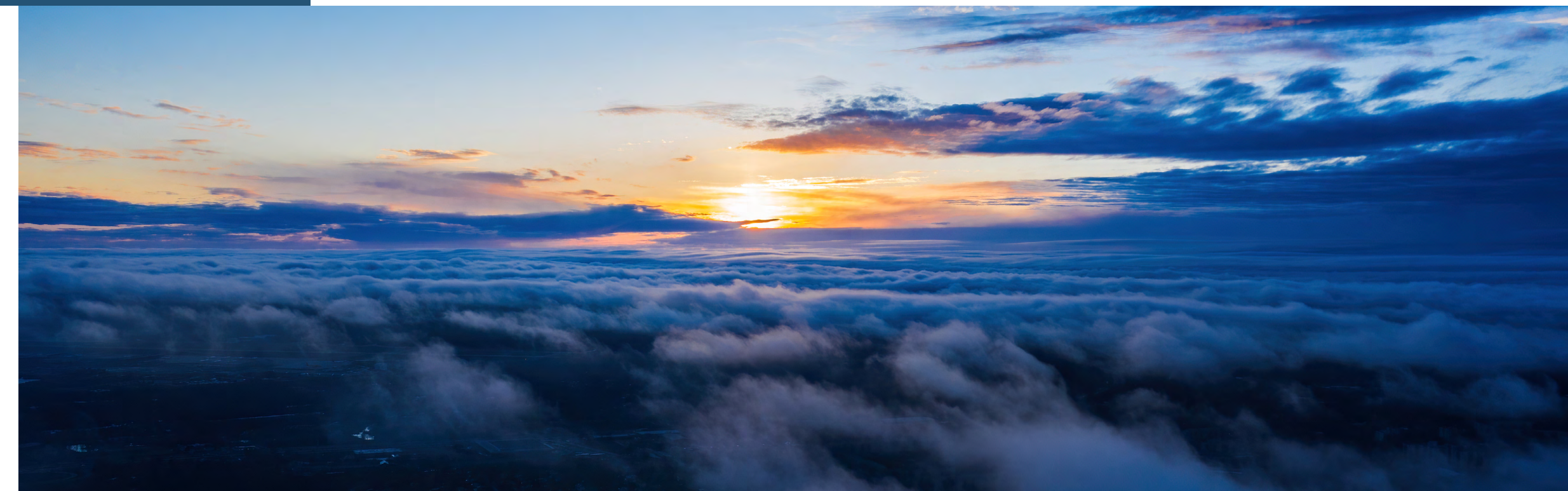
Transition to net-zero operations

Transition to net-zero operations

By decarbonising our own operations, we aspire to lead by example. This is where we have direct control and can act swiftly to immediately reduce emissions.

Our approach

We are actively reducing our own operational carbon footprint and striving for net-zero emissions by 2030. To achieve long-lasting change, we must cement sustainability within both our operations and organisational culture. Our employees' knowledge, experience and daily decisions play a crucial role in driving Erste Group's net-zero transition. We are therefore launching a green culture initiative to draw upon our people's expertise and foster a sense of shared ambition and responsibility.



Our 2022 operational emissions

39,393
tonnes CO₂e
Scope 1 and 2
emissions

- > Heat and electricity consumption
- > Fuel consumption of our vehicle fleet

54,578
tonnes CO₂e
Scope 3 emissions

- > Purchased goods and services
- > Waste generated in operations
- > Business travel
- > Employee commuting

Our operational emissions targets

Our emissions reduction targets cover our direct and indirect operational emissions (Scope 1 and 2) across our core markets, excluding the savings banks segment. We are expanding our coverage to encompass the whole Group and aim to provide updates on this expansion in 2024.

90% green electricity in core markets by 2023

Additionally, we will achieve climate neutrality by offsetting our remaining Scope 1 and 2 emissions using high-quality carbon credits.

Net-zero operations by 2030

Net-zero status is achieved by making technically feasible reductions of Scope 1 and 2 emissions (a minimum reduction of 80% compared with our base year of 2017).

Our operational emissions reduction initiatives

We have a three-pronged strategy to achieve net-zero operations by 2030, with targets and emissions reduction measures across Buildings, Mobility and Culture.



Buildings

Sustainable buildings improve energy and water efficiency and reduce environmental impacts.

- > Increase the share of green electricity to 90% in 2023.
- > Increase renewable energy sources to 50% by 2025.
- > Increase Erste Group's own solar energy generation by 2030.
- > Install smart meters across all locations by 2030.



Mobility

We consider the emissions footprint of business travel and commuting, while encouraging more climate-conscious choices.

Our initiatives

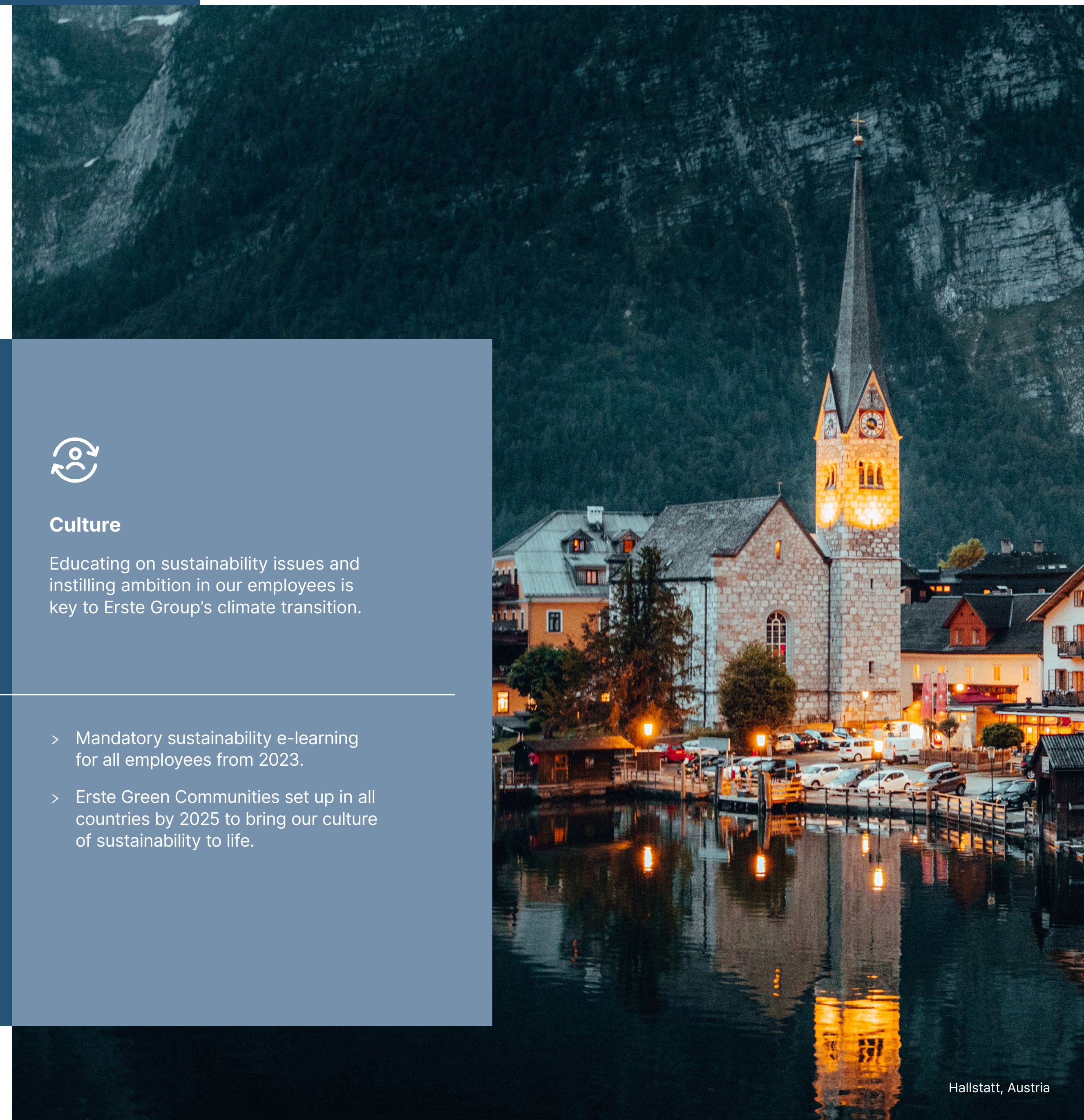
- > 25% e-cars in our fleet by 2025 and 100% by 2030.
- > e-car sharing offered to all employees for business trips.
- > Public transport tickets supported by Erste Group.
- > Low-carbon travel policy.
- > Minimise and electrify transportation services.



Culture

Educating on sustainability issues and instilling ambition in our employees is key to Erste Group's climate transition.

- > Mandatory sustainability e-learning for all employees from 2023.
- > Erste Green Communities set up in all countries by 2025 to bring our culture of sustainability to life.





Our path to net-zero

Directly reducing operational emissions is our first priority. However, we also want to take responsibility for remaining emissions as we continue our efforts to decarbonise. Starting in 2023, we will offset our Scope 1 and 2 emissions using high-quality carbon credits to achieve climate neutrality. As we accelerate our efforts towards net-zero by 2030, we will be able to reduce our reliance on carbon credits.

The carbon credits we purchase reflect the genuine reduction or removal of carbon emissions via credible carbon projects. Additionally, the carbon projects we support have social and environmental co-benefits, beyond emissions reductions. The following selection criteria are used to evaluate which carbon credits we purchase, and the projects we support:



Highest quality standards



Regional focus (CEE or EU)



Certificates visible in a public register



Credit vintage* no older than 5 years

*The vintage of a carbon credit is the year that emission reductions occurred or that the credit was issued.

5

Sustainable asset management

5.1

€15 billion invested in sustainable assets in 2022.

Erste AM is the biggest provider of sustainable funds in Austria. It has one of the largest and most experienced sustainability teams in the German-speaking region and is one of the top asset management players in CEE.

Sustainable asset management

Investment is the engine of development, and our ambition is that all investment moves the world towards a more sustainable future. As the principal asset management arm of Erste Group, Erste Asset Management (Erste AM) is our primary vehicle to mobilise capital to accelerate the green transition in Central and Eastern Europe (CEE).

Our approach

Erste AM's sustainability strategy focuses on mitigating risks, seizing growth opportunities, adapting to global trends, and targeting investments to achieve environmental and social impact. These priorities ensure the sustainable character of our investments over the long term.

Erste AM's sustainable funds are underpinned by a rigorous approach to ESG:

Funds are categorised according to specific ESG criteria:



Environment

We avoid financing genetic engineering, coal mining*, water wastage or the destruction of habitats.

*undertakings deriving more than 5% of their turnover from coal mining.

Impact:

These funds make a direct positive impact on the environment and society.

Social

We support equality and human rights and exclude outlawed weapons.

Responsible:

These funds have strict selection criteria, to identify the most sustainable companies in the industry using our best-in-class approach.

Governance

We are committed to anti-corruption, transparency and maintaining an active dialogue with companies in our investment universe.

Integration:

Sustainability has been taken into account when selecting securities.

Our progress thus far

Erste AM has taken significant steps to invest in and shape a lower-carbon and climate-resilient future.

Signed the UN PRI Standards, committing to principles of responsible investment.

2009

Banned food speculation (investment which aims to profit from changes in food prices).

2013

- > Coal exclusion policy established for all products.
- > ERSTE-SPARINVEST invests sustainably, with parts of registered capital invested in sustainable funds.

2016

- > First emissions risk calculations for responsible bond funds.
- > Joined Climate Action 100+.

2019

Erste Group signed the Green Consumption Pledge, a commitment to providing sustainable investment products and information to clients, so they can make informed and sustainable choices.

2021

Initiated a partnership with the World Wildlife Fund (WWF) and launched the Erste WWF Stock Environment Fund. €2.5M+ in fees has been donated to environmental projects thus far.

2006

Excluded companies involved in the production or sale of banned weapons.

2012

- > Voted for all Erste AM equity funds in line with our sustainability guidelines.
- > Signed the PRI Montréal Pledge, committing to measure and disclose the emissions footprint of our funds.

2015

First water footprint calculated for responsible equity funds.

2018

Company-wide integration of ESG criteria into financial analysis.

2020

17 Erste-labelled funds to receive the Austrian Ecolabel.

2023

ESGenius analyses best-in-class responsible investments

ESGenius is Erste AM's proprietary, best-in-class process for analysing sustainable investments. It combines risk considerations with ethically-oriented ESG approaches to provide a holistic assessment for each issuer, tailored to its activity. By combining both ESG and financial risk performance, ESGenius creates additional value, when compared with exclusively risk-focused or ESG-focused ratings.

ESGenius assesses companies' exposure to and management of various ESG risks, including considerations around regulations, emissions, energy, water, suppliers, products and society more broadly. It identifies those businesses within each sector that manage risks well, while also identifying those whose actions reflect the highest ethical standards. Every company is awarded an ESGenius rating between 0 and 100.

We participate in active ownership through voting and engagement

Erste AM takes a proactive ownership approach with the companies we invest in. By engaging in direct dialogue and voting at shareholder meetings, we aim to promote social responsibility, sustainable operations, environmental protection and improved transparency.

One example of active ownership is our industry partnership through Climate Action 100+, an investor-led initiative with 700+ members. Together, we aim to ensure that the world's most significant corporate greenhouse gas contributors take critical climate action. As the largest global investor engagement initiative on climate change, members of Climate Action 100+ are responsible for \$68 trillion in assets under management.

As the leading Austrian investment company, Erste AM has assumed a leadership role within the Climate Action 100+ partnership's joint engagement with OMV AG, an oil and gas company.

Read more about Erste AM's joint Climate 100+ efforts in the [2022 Engagement and Voting Report](#).

Next steps

Erste AM continuously evolves both our products and approach to support climate resilience and financial health. By the end of 2023, the number of Erste-labelled funds awarded with the Austrian Ecolabel is set to increase to 17, as part of our Green Consumption Pledge. This provides transparent, accessible and comparable information for ESG investors.



Mountain lake, Slovenia

6

Transition to a net-zero portfolio

Transition to a net-zero portfolio

Sustainable finance is not only a business opportunity, but a crucial enabler of the green transition. Our ambition to lead this transition requires a firm financial commitment and a clear portfolio transition pathway aligned with the Paris Agreement.

We are therefore committed to aligning our portfolio to a 1.5°C pathway, through close collaboration and partnership with our clients.

Our 2022 financed emissions

29.4Mt
CO₂e
total financed
emissions

51%
of total portfolio
exposure covered
by calculation



Our targets

Portfolio targets

We are working to align all our sector-specific targets to a 1.5°C future.

Sector	Target
Housing Mortgages	1.75°C*
Commercial Real Estate	1.75°C*
Electricity Production	1.5°C*
Heat Production	1.5°C**
Cement	planned for 2024
Auto Manufacturing	planned for 2024
Oil & Gas	planned for 2024
Steel	planned for 2024
Agriculture	planned
Coal	phase-out by 2030
Aluminium	not planned: not material

Sustainable lending targets and CEE market development ambition

Our sustainable lending targets support the realisation of our broader decarbonisation targets and reflect the financial opportunities we see. Alongside these sustainable lending targets, Erste Group actively issues sustainable finance market instruments such as green bonds, with the aim to make them broadly available and widely adopted across our region.

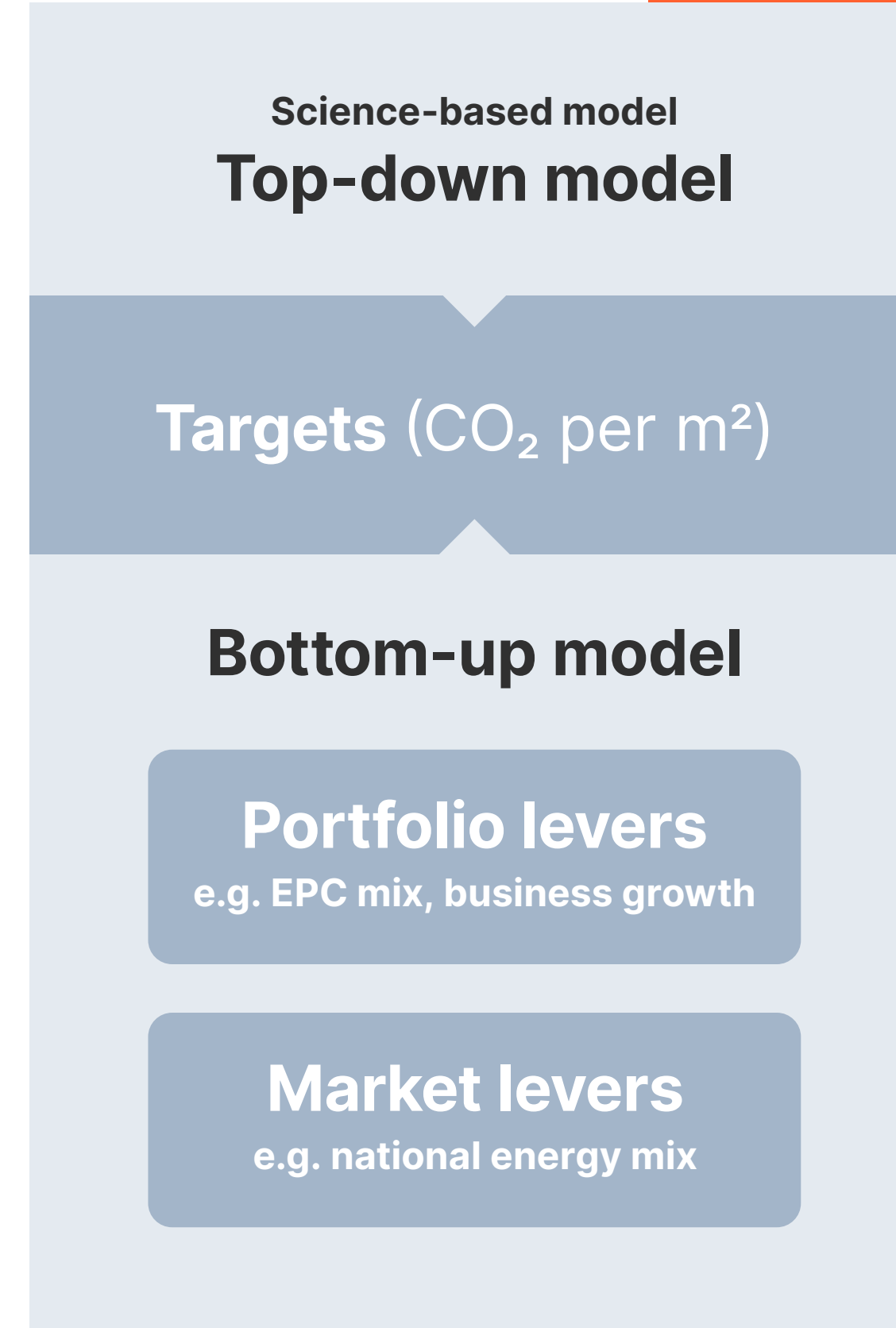
In 2022, €2.09 billion sustainable bonds were issued, an increase of €825 million from 2021. Refer to our [2022 Bond Impact and Allocation Report](#) for further details.

2026

25%
of our corporate portfolio is green

2027

15%
of our retail housing portfolio is green



Target-setting approach

Our target-setting approach combines top-down, scenario-based target setting, with bottom-up tools, to ensure that our targets are both ambitious and achievable.

In commercial real estate and mortgage portfolios, for example, we developed a proprietary bottom-up model to factor in portfolio and market-specific attributes and to simulate potential future portfolio steering levers such as the EPC mix. We used local information and National Energy and Climate Plans (NECPs) from our region to analyse various scenarios and test the feasibility of climate targets.

A critical finding was that many NECPs lead to warming scenarios of below 2°C, but are not expected to achieve the emissions reductions needed to limit global warming to 1.5°C.

The EU is requesting a revision of local NECPs, with the aim of strengthening and aligning them with the goals of the European Green Deal and a 1.5°C pathway. We look forward to the updates to the NECP expected by June 2024, which will form the basis for the reassessment and possible revision of our targets to 1.5°C.

*Aligned scenario
 **A recent review of our heat production target confirmed that we are aligned with a 1.5°C pathway in that sector (Note: in Erste Group's non-financial report 2022 1.75°C pathway was communicated)

Integrating decarbonisation into our business

Financial planning

In 2022, we took proactive steps to incorporate decarbonisation and green lending into our financial planning, by establishing a planning framework on both a sectoral and business line level. Typically, our financial planning looks ahead five years, however, for the purpose of emissions planning, we have now extended the timeframe to both a 2030 and 2050 horizon. We remain committed to continuously refining our approach to climate-related financial planning.

Partnering with our clients

Collaborating with our clients is central to our shared decarbonisation journey. Recognising this need for deeper engagement, we have developed an approach to partner more effectively.

Our internal ESG assessment questionnaire, for example, is a vital part of our screening process. It delivers a comprehensive ESG risk evaluation for large corporate and commercial real estate transactions. The same applies to our ESG Factor Heatmap, which is used for the ESG assessment of SMEs. For further details, please refer to [Annex \(2\)](#).

As part of our decarbonisation efforts, we are also introducing sector-specific transition questionnaires for clients in carbon-intensive sectors such as cement, oil and gas.

We can only decarbonise together with our clients. Please visit our [webpage](#) for financing examples.

Decarbonising our mortgage portfolio

We encourage people and businesses to adopt more sustainable approaches to building development and renovation. This includes improvements such as thermal insulation, efficient heating systems and the installation of solar photovoltaic panels.

Erste already provides sustainable financial products in our main markets, such as green mortgages and solar leasing. We plan to create new products and services that empower people to make investment decisions that benefit the environment, while also improving their financial health and personal wellbeing.

One such service is George, Erste's digital, interactive personal finance solution for both individuals and corporate clients. We plan to evolve George to provide customers with a comprehensive overview of their housing expenses, including their energy usage and costs. The platform will provide insights that help people make their homes more sustainable, cost-effective and energy-efficient, including advising them of their most appropriate financing options.

Decarbonising our commercial real estate portfolio

We encourage sustainable development in commercial real estate, both in renovations to existing buildings, and the development of new green buildings.

Accordingly, we are working to enhance our product offerings. We will consider the unique needs of each market, country and specific sectors such as retail, offices and hotels. Our trusted relationships remain essential in this sector, as the success of decarbonisation in the built environment hinges on the co-operation of developers, tenants and their financing partners.

Decarbonising our electricity, heat and steam production portfolio

Decarbonising CEE's most carbon-intensive sectors is critical to the region's green transition. Our vision involves replacing carbon-intensive processes with renewable technologies wherever feasible. For example, this includes waste heat recovery, geothermal technologies for heating, and solar and wind for electricity production. We will continue to collaborate closely with our clients in this sector, seize renewable energy financing opportunities and drive further progress.

Erste Group will review its clients' coal transition plans by 2025 in alignment with our [Responsible Financing policy](#), which will see us entirely phasing out of coal by 2030.

A silhouette of a person standing on a beach at sunset, looking out at the ocean. The person is centered in the frame, with their reflection visible in the wet sand. The sky is a mix of orange, purple, and blue, and the ocean waves are visible in the foreground.

7

Integrating climate risks into bank risk management

Integrating climate risks into bank risk management

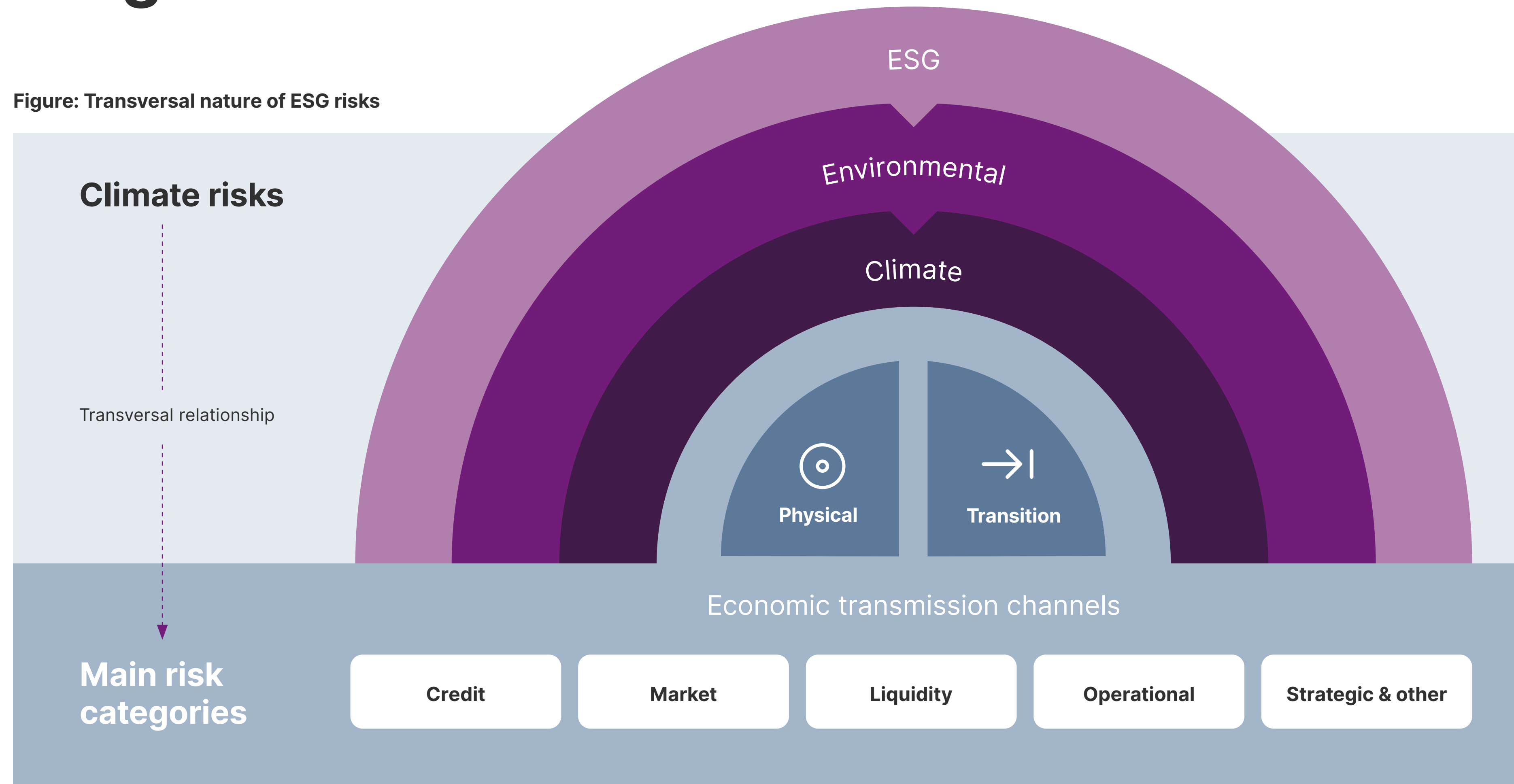
ESG risks are embedded into the Risk Management Framework of Erste Group. They are considered in our Risk Materiality Assessment, Risk Appetite Statement, Risk Strategy and in our industry strategies and portfolio actions. Within lending and collateral management processes, ESG risks are integrated on both a client and transactional level.

Risk definition

Climate risks are classified into physical and transitional risks, and are part of environmental risks within the broader ESG universe. Environmental risks relate to losses arising from any negative financial impact on Erste Group, stemming from the current or prospective impacts of environmental factors on our counterparties or invested assets. This includes factors related to the transition towards the environmental objectives as described in the EU Taxonomy.

In the approach of Erste Group, ESG risks - including climate risks - are considered transversal. That is, they have an impact on and are reflected through existing risk types, such as credit risk, market risk, liquidity risk, operational risk, strategic risk and reputational risk.

Figure: Transversal nature of ESG risks



Climate risks

Transversal relationship

Main risk categories

Credit

Market

Liquidity

Operational

Strategic & other

ESG

Environmental

Climate

Physical

Transition

Economic transmission channels



















Assessing and managing climate-related risks

Erste Group has developed a set of tools for assessing and mitigating climate risks along the risk types outlined above.

Table: Risk assessment and management tools

All methodologies and the ways in which risk assessments influence decision making are outlined in [Annex \(2\)](#).



Climate risk	Business portfolios	Risk assessment and management tools					
	Scope  Corporate business loans, project finance, mortgages, commercial real estate, commercial residential real estate	Client / Assets  ESG assessment questionnaire	 Group responsible finance policy	Portfolio  Climate change house view (Business environment assessment)	 ESG factor heatmap	 Carbon footprint / financed emissions	 Climate stress testing
				 Portfolio net-zero transition / decarbonisation	 Risk materiality assessment	 Risk strategy	 Risk appetite statement
	Scope  Corporate business loans, project finance, mortgages, commercial real estate, commercial residential real estate	Client / Assets  ESG assessment questionnaire	 Information on physical risks is considered in the assessments of real estate and collateral assets, e.g. river flood, heat stress, etc.	Portfolio  Risk materiality assessment	 Risk appetite statement	 Climate stress testing	
				 ESG factor heatmap			

Zell am See, Austria



České Středohoří, Czech Republic

Risk materiality

Erste Group’s annual Risk Materiality Assessment makes use of selected portfolio tools to determine the materiality of ESG risks, including both physical and transitional climate risks.

Table: Risk materiality assessment 2022

Transversal risks	Annual RMA '22	
	Result	2030 Outlook
ESG risk	Medium	Positive ↘
Credit risk	Medium	Positive ↘
Market risk	Low	Stable >>
Liquidity risk	Low	Stable >>
Operational risk	Low	Negative ↗
Strategic risk	Low	Stable >>

The results of the Risk Materiality Assessment show medium materiality of ESG risks for credit risk, and low materiality (immaterial risk) for market-, liquidity-, operational- and strategic risk. Materiality determines how risks are addressed in Erste Group. Our primary focus is therefore to manage and mitigate ESG risks in credit risk.

In addition to our annual Risk Materiality Assessment, we completed a physical risk assessment of Erste Group in June 2023. This was conducted with the support of climate change experts from the University of Graz. The exercise aimed to identify key risks for our portfolio. Additionally, it assessed Climate Hazards Scores, which we acquired from Munich Re for group-wide usage. We will use these results to further develop our risk management processes.

Political and corporate sentiment, public opinion, national policies in our region and technical developments will all shape how ESG in bank risk management develops over time. By employing best practices and investing in our risk infrastructure and people, we are confident in our ability to master the challenges ahead.

Learn more about Erste Group’s approach to climate risk management in [Annex \(2\)](#).



8

Climate action governance



Golubac, Serbia

Climate action governance

To implement our ambitious climate strategy, we adhere to strict ESG governance on the basis of Erste Group’s existing governance structure. ESG governance bodies encompass the Supervisory Board level, Management Board level and business and function-specific levels. Please refer to [Annex \(3\)](#) for a detailed description of the central governance bodies and the specific responsibilities of management board members.

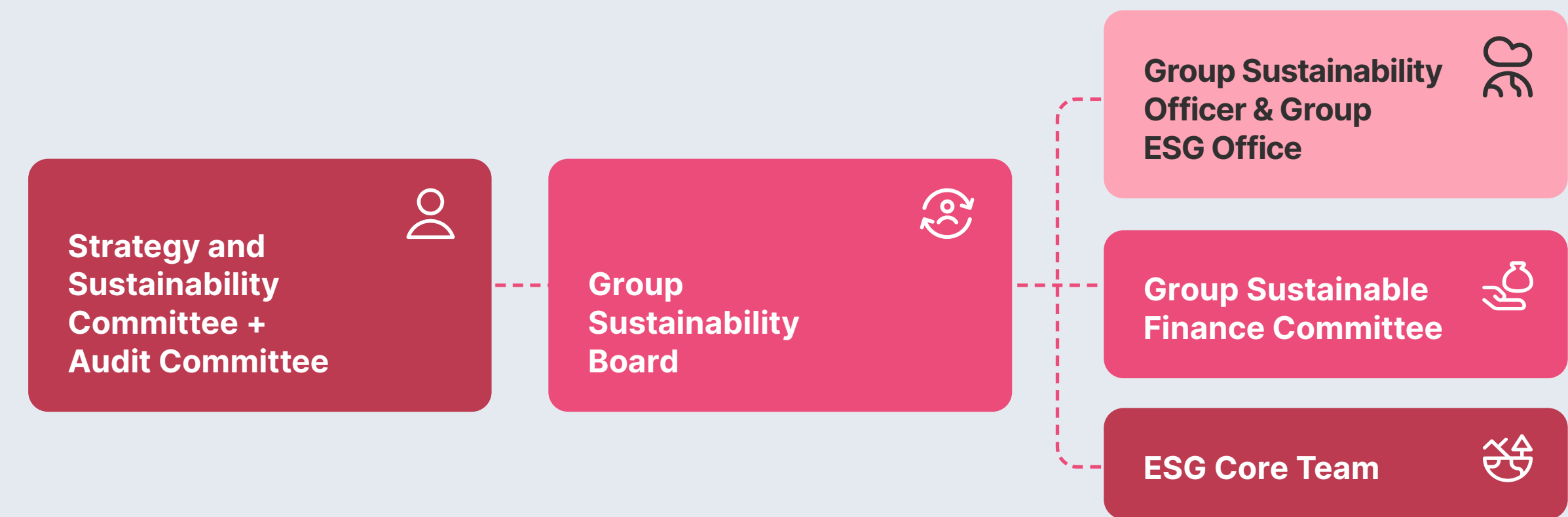
Climate and other ESG-related risks are also integrated into the existing risk management framework and follow the three-lines-of-defence approach, which consists of the operative function, the risk management function and internal auditing.

Governance model

Supervisory Board level

Management Board level

Business and function level





Board oversight

Erste Group's Supervisory and Management Boards maintain oversight over our ESG strategy, targets and policies, including their implementation. They actively monitor and evaluate the company's performance in relation to climate risk, financial health, risk management practices and adherence to legal and ethical standards.

In 2022, the Sustainability Board received nine briefings from the Group ESG Office regarding climate- and environment-related risks and opportunities. Additionally, the Supervisory Board (comprising the Strategy and Sustainability Committee and Audit Committee) was briefed 11 times by the Group ESG Office.

10-15%
of each board member's variable remuneration depends on ESG criteria.



ESG targets

- ☆ Overall ESG performance
- ☆ Green Transition: Green financing & net-zero transition
- ☆ Equal opportunities

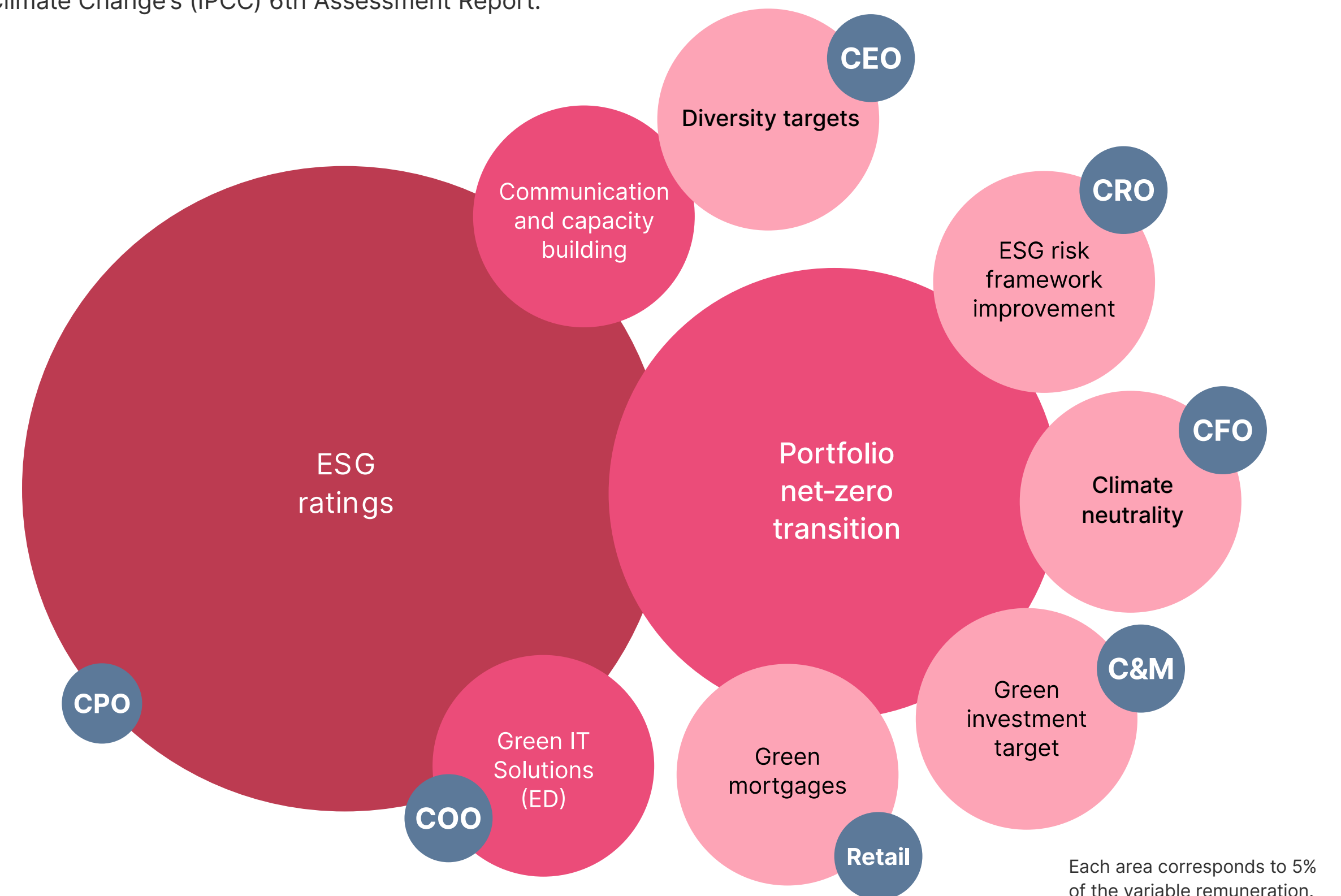
Climate-related training and education

In 2022, the Supervisory Board and Management Board attended two scientific lectures to understand the evolving economic implications of climate change and the significance of broader ESG issues for both our business and customers in our core markets. Lectures were conducted by the Head of the Wegener Center for Climate and Global Change at the University of Graz. In 2022, the lecturer was the coordinating lead author for the Intergovernmental Panel on Climate Change's (IPCC) 6th Assessment Report.

Sustainability-linked remuneration

Support for climate-related action - particularly the transition to a net-zero portfolio - is a crucial aspect of our remuneration policy. This incentivises Management Board members to promote the sustainable development of the bank

In 2022, the ESG targets of the management board were as follows:



9

Annex



Annex

Metrics: Overview FY22

Metrics	Measure	Total YE 22	Thereof client's scope 1+2	Thereof client's scope 3
GHG emissions				
Scope 1	tCO ₂ e	20,707		
Scope 2 (market based)	tCO ₂ e	18,686		
Scope 3 (3.1 - 3.7)	tCO ₂ e	54,578		
Scope 3 (3.15) / Financed emissions	tCO ₂ e	29,444,729	14,328,634	15,116,095
Emission intensity				
Scope 1+2+3 (3.1-3.7)	tCO ₂ e/FTE	2.1		
Scope 3 (3.15)	tCO ₂ e/EUR mn exposure	165.1		
Exposure to carbon intense sectors				
High (1 - 6 kgCO ₂ e/EUR revenue)	EUR mn	3,371		
Critical (>6 kgCO ₂ e/EUR revenues)	EUR mn	410		
Sustainable bond issuance				
Sustainable bonds issued	EUR mn	2,090		
GHG emissions avoided	tCO ₂ e	23,282		
Operational metrics				
share of e-cars	%	6		
Share of green electricity	%	82		
Asset management				
ESG assets under management (SFDR Art. 8 & 9)	EUR mn	15,040		

Metrics: Details of financed emissions FY22

	Credit exposure	Credit exposure covered by emissions calculation	Financed emissions, thousand tCO ₂ e		Emission intensity	Weighted data quality
	EUR mln	EUR mln	Scope 1 + Scope 2	Scope 3	tCO ₂ e/EUR mln	High = 1, Low = 5
2021	312,439	140,200	11,053		79.0	4.3
2022						
per PCAF asset class						
Corporate bonds		2,073	313	441	363.6	3.9
Business loans		74,270	9,990	14,648	331.7	4.1
Project finance		2,295	349	27	164.2	3.1
Mortgages		72,632	2,987	0	41.1	3.9
Commercial real estate		27,050	689	0	25.5	3.6
Total	349,166	178,319	14,329	15,116	165.1	3.9
per sector						
Natural resources & commodities	13,881	9,046	3,093	2,418	609.2	3.9
Energy	14,912	8,000	3,644	525	521.1	3.3
Construction	16,111	7,393	1,192	2,026	435.4	4.0
Automotive	7,715	5,624	389	4,755	914.6	3.8
Cyclical consumer goods	9,314	4,311	143	220	84.3	3.8
Non-cyclical consumer goods	9,947	5,575	454	483	167.9	4.0
Machinery	6,188	6,873	588	2,134	395.9	3.6
Transportation	7,394	3,322	279	1,636	576.6	4.1
TMT	7,487	4,043	298	572	215.2	3.9
Healthcare & Services	11,123	7,478	355	102	61.1	4.2
Hotels and Leisure	9,487	7,637	241	31	35.7	4.1
Real estate3	43,208	36,986	932	214	31.0	4.0
Public sector	66,994	365	2	-	4.5	4.1
Financial institutions	28,074	3,090	37	-	11.8	4.2
Private customers	96,992	68,545	2,682	-	39.1	3.9
Other sectors	339	32	1	-	19.0	4.9
Total	349,166	178,319	14,329	15,116	165.1	3.9
per carbon intensity of corporate clients						
High (1 - 6 kgCO ₂ e/EUR revenue)		3,371	2,661	950	1,071	3.6
Critical (>6 kgCO ₂ e/EUR revenues)		410	1,836	10	4,500	3.1

Targets: Overview

Targets	Measure	Scenario	Baseline		Actual (YE 22)	Short term target		Mid term target		Long term target		Scope
			Year	Value	Value	Year	Value	Year	Value	Year	Value	
Operational												
GHG emissions Scope 1+2	tCO ₂ e		2017	72,433	30,047	2025	28,973	2030	14,487			Erste Group excl. Savings banks
Share of green electricity	%				83%	2023	90%					Erste Group excl. Savings banks
Share of e-cars	%				4%	2025	25%	2030	100%			Erste Group excl. Savings banks
Portfolio												
Mortgages	kgCO ₂ e/m ²	IEA B2DS	2022	53.3	53.3			2030	30.5	2050	0.8	Erste Group excl Savings banks and Serbia
Commercial real estate	kgCO ₂ e/m ²	IEA B2DS	2022	50.9	50.9			2030	25.7	2050	1	Erste Group excl Savings banks and Serbia
Electricity production	kgCO ₂ e/MWh	IEA NZE2050	2022	421.4	421.4			2030	215.6	2050	24.9	Erste Group excl Savings banks and Serbia
Heat&Steam production	thousand tCO ₂ e	IEA B2DS	2022	1,382	1,382			2030	801	2050	138	Erste Group excl Savings banks and Serbia
Sustainable Corporate banking	% of credit exposure (Green investment ratio)							2026	25%			Erste Group
Sustainable Retail housing	% of credit exposure (Green investment ratio)							2027	15%			Erste Group
Asset Management												
Ecolabel funds offered	Nr of funds		2021	11	16	2023	17					Erste Group

Integrating climate risks into bank risk management

Risk definition

Climate risks are split into, and categorised as, physical risks and transition risks, in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

Physical risks

These include acute physical risks, such as hazardous weather-related events or chronic physical risks arising from longer-term changes in the climate, such as water scarcity, loss of biodiversity and changes in land and soil productivity.

Transition risks

These risks materialise through additional operational or investment costs as businesses and sectors transition towards a sustainable, low-carbon economy. This can be induced by factors such as legislation, new technological or market standards, as well as changing customer preferences. In some cases, transition risks materialise through liabilities caused by the negative impacts of products, policies or pollution.

Assessing climate-related risks

Certain ESG risks, such as environmental damage or serious negative social consequences, have always been considered in Erste Group's business and risk management. Given the urgency of climate change and increased regulatory requirements, we have taken additional steps to ensure interdisciplinary integration of ESG risks into our risk management framework:

- > In credit risk, for example, collecting data and information from clients during the lending process has been redesigned. These steps enable Erste Group to support our clients in their transition towards a more sustainable way of doing business.
- > As an integral part of the transaction screening phase, Erste Group conducts an assessment to determine whether the requirements defined in Erste Group's Responsible Financing Policy are met.
- > Our high and critical emissions exposure within the portfolio is disclosed in the [Non-Financial Report](#) and stood at €3.4 billion for high-emission sectors and €400 million for critical emission sectors, as of 2022.
- > The Non-Financial Risk Decision Process identifies coherent reputational risks.
- > Strategically, we focus on net-zero interim targets for critical sectors, ensuring long-term resilience for both our financed portfolios and our client's business models. By utilising quantitative indicators in our Risk Strategy, we ensure that we track our portfolio decarbonisation efforts from a risk perspective.

ESG Assessment Questionnaire

Our internal ESG assessment questionnaire is now an integral part of our screening process for large corporate, commercial real estate and commercial residential real estate transactions. It provides a comprehensive ESG risk assessment during loan origination and monitoring.

This questionnaire allows us to identify those clients who are vulnerable to ESG risks, while also collecting environmental footprint data (including CO₂e emissions, water consumption and waste, for example). High-risk cases undergo a deep dive assessment to further explore the nature and severity of the risk.

For real estate, the questionnaire includes a technical assessment of the building's environmental footprint for commercial real estate assets. This generates an internal Technical Object Rating and a risk assessment based on ESG criteria.

Across Erste Group, all ESG assessments are digital and collected in a centralised solution hub, making them accessible and available across the entire group. This offers the possibility of using the information for multiple purposes.

Collateral management

We prioritise the integration of ESG factors in collateral management and real estate valuations. In our internal valuations, the focus lies on energy efficiency and physical risks. The energy efficiency assessment is based on Energy Performance Certificates (EPC) which we request from our clients or, if available, source from public registers in certain countries.

Up-to-date information on physical risks is considered when assessing the evaluated asset. Additionally, we assess other negative climate change contributions (DNSH - Do No Significant Harm criteria) in real estate valuations.

The collected ESG and physical risk data are also used in disclosure reporting and portfolio decarbonisation calculations.

ESG Factor Heatmap

The ESG Factor Heatmap serves as a valuable risk assessment and management tool by identifying segments exposed to ESG risk factors in our regions over the mid-term horizon.

This heatmap is embedded into our internal processes, to guide lending standards, credit assessments (e.g., for SME clients and smaller real estate transactions), portfolio management and industry strategies.

Combining climate, environmental, social and governance risk factors, the heatmap utilises a granular segmentation of industry sectors for a tailored approach, considering the relevance of specific risk drivers based on each sector’s nature.

It also enables us to identify ESG risks and opportunities and review industry strategies according to sector-specific factors. Industry subsectors are assessed by potential ESG events and categorised as having low- to very high-risk levels, with expert teams providing qualitative considerations for the assessment.

Table: ESG Factor Heatmap Scoring Definition

Low	<ul style="list-style-type: none"> > ESG risk factors of low relevance to the companies in the industry
Medium	<ul style="list-style-type: none"> > ESG risk factors of some relevance to the companies in the industry > Either low impact or actively managed/mitigated to prevent impact on the credit profiles
High	<ul style="list-style-type: none"> > ESG risk factors relevant to the companies in the industry > High ESG risk factors have an impact on the credit profiles if not actively managed/mitigated
Very high	<ul style="list-style-type: none"> > Highly relevant ESG risk factors to the companies in the industry > Key risk drivers with a significant impact on the credit profiles

Stress testing

Stress testing is a critical risk management tool for Erste Group, offering a forward-looking view of the bank’s risk profile.

From 2023, the stress test framework integrates climate risks. The stress testing committee oversees the process, ensuring a comprehensive review across multiple business areas. Stress testing analyses are led by the Enterprise-wide Risk Management (ERM) division, with support for the data and calculations coming from other areas of the bank, such as controlling and asset and liability management.

The ERM division conducts internal stress testing analysis for climate risks, with a focus on short-term physical risk in 2023. The integration of climate stress testing is expected to progress over time through further development of the methodology. Developments will include the distinction between physical and transition risk across various scenarios, improving data quality, advancing model development, and translating scenarios into quantitative impacts.

Erste Group’s climate risk stress testing was influenced by participation in the European Central Bank’s (ECB) inaugural Climate Stress Test in 2022, which assessed short-term and long-term scenarios related to both physical and transition risks. The test revealed insights into the bank’s exposure to carbon-intensive industries and their sensitivity to transition risk. Erste Group’s business model was classified as a ‘diversified lender’.

Selected industry and real estate secured portfolios were stress tested across short-, medium- and long-term horizons. Short-term physical risk scenarios focused on hazards such as flooding, drought and heat. The regulatory scenarios specified the geographic coverage and severity for these physical risk scenarios.

Of the portfolios in scope, regions in Romania and Austria received a ‘high’ flood risk classification, with shocks of real estate collateral erosion above 40%. The Czech Republic and Slovakia fell into ‘medium’ physical risk classifications.

The mid-term scenarios focused on a carbon emissions pricing shock in a disorderly transition to a greener economy. The increased cost of carbon emissions and the disorderly transition adversely impacted multiple industries. In the long term, multiple scenarios were considered: orderly, disorderly and hot-house.

The climate stress test results identified areas of the portfolio sensitive to climate risk. This offers insights into the long-term impacts on growth potential, value generation and challenges in critical segments.

The impact of the different scenarios was applied to selected portfolios. In particular, for different industry portfolios, a ‘gross value-added’ approach was taken, allowing for a differentiated impact to the different industry portfolios (e.g., manufacturing, transport, etc.) while collateral valuation impacts were calculated for real-estate sensitive portfolios. The final impact is measured as the total increase in stressed provisions.

Additionally, the ECB’s 2022 Climate Stress Test results were used to develop climate indicators in the Risk Materiality Assessment (RMA), an essential component of the Internal Capital Adequacy Assessment Process (ICAAP). The RMA is a senior management steering tool that influences the bank’s business decisions.





Financed emissions

Companies exposed to climate transition risk will drive higher future operational or capital expenditures. The carbon emissions of Erste Group’s financed portfolios play a crucial role in identifying those customers who are facing elevated transitional risk. See also [Chapter 6: “Transition to a net-zero portfolio”](#).

Risk materiality assessment

The annual Risk Materiality Assessment (“RMA”) uses selected portfolio tools (e.g., ESG Factor Heatmap and Stress Testing) to evaluate the significance of climate and environmental risks, including physical and transitional risks, across various risk types (including credit, market, liquidity, operational and strategic risks).

In addition, some processes and tools are implemented explicitly for RMA purposes. For example:

- > In operational risk for the damage of own assets or of service providers from floods and storms; or
- > In market risk for the assessment of the sovereign bond portfolio (University of Notre Dame Global Adaptation Index).

The results of the materiality assessment in 2022 indicate medium materiality for credit risk and low materiality (immaterial risk) for market, liquidity, operational and strategic risk.

ESG risk materiality (low/medium/high) is evaluated over the short-to-medium-term horizon of three to five years, while the outlook extends to the long term (2030).

The medium materiality of credit risk (and overall ESG risk) is primarily driven by transition risk, reflecting the potential impact of a disorderly transition on Erste Group’s capital and profitability.

The potential impact of physical risks (floods, droughts and extreme heat) is considered low, for both the loan portfolio (credit risk) and the bank’s real estate assets and service providers (operational risk).

Exposure to environmental degradation and animal welfare within our portfolio is assessed as medium, based on industry-level analysis.

Various internal projects implemented in the past two years effectively reduced Erste Group’s strategic exposure to environmental risk.

In addition to our annual RMA, we successfully completed a physical risk assessment of Erste Group in June 2023. This was conducted in partnership with climate change experts from the University of Graz.

The assessment identified key risks in our portfolio and included an evaluation of Climate Hazards Scores, which were obtained from Munich Re and will be utilised across the entire Group. The insights gained from this exercise will be used to enhance our risk management processes.

Erste Group will focus on key risks, including heat stress, drought stress, fire weather stress, river floods and coastal floods (sea level rise). This is based on projections for Europe, which have been derived from various IPCC climate scenarios and time horizons.

For Erste Group’s risk processes, the IPCC’s climate scenario RCP 4.5. will be taken into consideration as the primary scenario, as it corresponds to the EU’s current pledges (Nationally Determined Contributions) and policies. In this scenario, global emissions peak in 2040 before declining. There is little difference between RCP 4.5 and RCP 8.5 by mid-century (2050s), which is the primary period for analysis.

Limiting global temperature increase to 1.5°C, corresponding to RCP 2.6, remains the target of our decarbonisation efforts.

Environmental risk

Climate change					Environmental degradation & animal welfare
Physical risks	Transition risks (air pollution/GHG emissions and energy efficiency)				
Stress scenario: flood/drought (impact on risk costs)	Stress scenario: short-term disorderly transition (impact on risk costs)	Energy efficiency and data quality (real estate)	Concentration (GHG)	Ghg emission intensity (share of loans with high and medium intensity)	Share of exposure in industry sectors with elevated exposure
Low	Medium	Medium	Low	Medium	Medium
Overall result:					
Medium					

Extract from Risk Materiality Assessment 2022 – Credit Risk

Operational risk management

ESG risks, above and beyond credit risk impacts, are implicitly managed within the existing Operational and Non-Financial Risk (NFR) Management framework.

The NFR decision process ensures a deep-dive scenario analysis, covering ESG risks in all dimensions (financial, legal and reputational) for single transactions.

Data collection and reporting requirements for ESG events follow the same standards as other operational risk events. They are therefore explicitly covered in the operational Risk Weighted Assets (RWA) calculation using scenario analysis.

Reputational risk

The reputation of Erste Group is vital for us and our multitude of stakeholders, including clients, shareholders and employees. The bank has established an integrated approach to effectively manage reputational risks, with a robust framework of group-wide policies and procedures.

A 'three lines of defence' concept guides our management of reputational risk. In cases where there are no strict guidelines (go/no-go criteria) for business decisions with related reputational risk, the Regional Operational Conduct Committee (ROCC) has the authority to set decision parameters.

Risk events with reputational risk impacts are evaluated using the Operational Risk Scaling Matrix, which considers the potential event's probability and severity. The highest risk impact level determines the final decision maker.

All identified cases are carefully managed to ensure the risk exposure aligns with the approved Risk Appetite Statement.

Non-financial risk decision process

All identified Non-Financial Risks (NFRs), including those related to ESG, are integrated into the operational risk management process.

The Non-Financial Risk Decision (NFRD) process is intrinsic to various business decision governance frameworks, including financing, outsourcing and product development. The process is designed for risk acceptance of evaluated NFRs, including climate and environmental (C&E) risks, with exact risk escalation levels and documentation. This serves as a foundation for effective risk response and monitoring.

The NFRD process allows for comprehensive consideration of climate and environmental risks and other non-financial risks, by measuring the probability and impact of identified risk scenarios. Impacts assessed include the financial consequences of the identified risk, projected reputational damage, as well as projected legal compliance aspects associated with the acceptance of such risk(s).

Depending on the scaling of identified risks, each NFRD has to be accepted by the appropriate risk acceptance level, depending on the combination of risk probability and risk impact. Each acceptance must be associated with respective risk mitigation measures.



Governance bodies & management roles

Supervisory Board (SB) level

The SB advises, oversees and approves the management board's strategic decisions, including the sustainability strategy, ESG framework and implementation. The SB established the **Strategy and Sustainability Committee** in 2022 to support this. In addition, the **Audit Committee** reviews and accepts the consolidated non-financial report.

Management Board (MB) level

The MB is responsible for the sustainability strategy, framework and targets, and embedding ESG decision making into the Group's capital, liquidity position and climate-related risks.

Quarterly updates on risk management, including climate and other ESG-related metrics, are provided to the MB. The board then ensures proper resource allocation, approves the operational ownership model, and holds ultimate responsibility for the internal controls system, including climate-related risk controls in credit granting and product development.

The MB delegates tasks related to the implementation of the sustainability strategy to the **Group Sustainability Board (GSB)**, a sub-committee composed of Erste Group Bank AG's MB members. The GSB reviews progress at least twice a year and assesses ESG-related key performance indicators for holding and local board members.

The **Group CEO (GCEO)** is accountable for the overall Group strategy and ESG strategy. The GCEO ensures the seamless integration of sustainability considerations into the Group's culture and governance framework. Taking a proactive leadership role, the GCEO fosters internal stakeholder support for sustainability initiatives, such as enhancing green financing capabilities, transitioning the portfolio to net-zero, and committing the Group's operations to climate neutrality.

The **Group CRO (GCRO)** integrates climate and environmental risks into the Group's risk management framework. The GCRO ensures that governance and remuneration principles of the Group accurately consider the impact of these risks.

The GCRO also ensures that the due diligence process for credit granting and other risk-taking activities appropriately incorporates climate and other ESG-rated risk identification and mitigation measures.

The **Group Chief Corporate and Markets Officer (CCMO)** ensures that the Group Corporate & Markets Business Strategy includes targets and portfolio actions in line with the Group's ambition to lead the green transition. Responsible for short- and long-term business targets related to financing green transition, the CCMO, along with the CRO and CFO functions, ensures that net-zero targets are translated into relevant business KPIs.

The CCMO ensures that operative business functions fulfill their role as the first line of defence for climate-related risks, by implementing appropriate client screening, mitigation measures and due diligence processes.

Business and functional level

The **Group Sustainability Officer (GSO)**, together with the **Group ESG Office**, develop the Group Sustainability Strategy and are responsible for embedding it across the business. This involves setting up a governance framework, targets and priorities. The GSO reports to the head of Group Strategy, and has direct access to the CEO, as well as other members of the Management Board and Supervisory Board. The GSO has the authority to veto decisions within the Group Credit Committee, and has a voting right within the Group Regional Operational Conduct Committee. The GSO also chairs the Group Sustainable Finance Committee.

The **ESG Core Team** includes senior managers from various business functions. This team is an internal collaboration platform that recommends objectives and corresponding initiatives through senior executive managers. It agrees and co-ordinates initiatives, timelines and other implementation matters.

The **Group Sustainable Finance Committee** consists of senior managers. It is responsible for Erste Group's Sustainable Finance Framework, group-wide sustainable asset eligibility rules, asset allocation and steering methods and reporting obligations. Chaired by the GSO and supported by senior risk and business unit managers with voting rights, the committee holds meetings on demand. Its recommendations are submitted to relevant decision-makers for adoption within the existing governance structures.





Towards net-zero

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