

Rating Action: Moody's upgrades supplementary capital and hybrid capital instruments of Erste Group Bank

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Rating actions follow announced resumption of coupon payments

Frankfurt am Main, February 04, 2016 -- Moody's Investors Service has today taken a series of rating actions that resulted in upgrades of the supplementary capital and hybrid capital instruments of Erste Group Bank AG (Erste).

The rating actions on supplementary capital and hybrid capital instruments follow Erste's announcement on 21 January 2016 to resume coupon payments on these instruments in 2016. The announcement is a result of management's expectation of sufficient profits (prior to movements in reserves) in the case of the supplementary capital instruments (Upper Tier 2 [UT2]), and sufficient distributable funds, in the case of the hybrid capital instruments. Each calculation has been performed by the bank for the financial year 2015 on a single entity basis of Erste Group Bank AG in accordance with Austrian GAAP and the Austrian Banking Act. The rating action also reflects revised notching for certain subordinated debt instruments as described more fully below.

Please see the end of this press release for a full list of the affected ratings.

RATINGS RATIONALE

NEW RATING LEVELS FOR SUPPLEMENTARY CAPITAL AND HYBRID CAPITAL INSTRUMENTS REFLECT RESUMPTION OF COUPON PAYMENTS

The rating actions on Erste's supplementary capital and hybrid capital instruments reflect the bank's announcement on 21 January 2016 to resume coupon payments on these instruments in 2016. The rating agency has therefore positioned the ratings according to its notching guidelines as set out in the bank rating methodology, assuming that all instruments are back to performing on a sustained basis. The new rating levels depend on the terms and conditions of these securities and their respective coupon skip mechanisms.

Three securities have been upgraded by one or two notches according to Moody's notching approach. Another five securities have been upgraded by up to three notches, reflecting Moody's decision to rate these securities based on its normal notching approach rather than an expected loss basis.

(1) For Erste's cumulative junior subordinated debt maturing in 2019 (ISIN:XS0303559115, Moody's Debt ID: 820418491), Moody's upgraded the rating by one notch to Ba3(hyb) from B1(hyb) - two notches below the bank's ba1 adjusted baseline credit assessment (BCA). The ratings reflect the junior subordinated claim in liquidation and cumulative deferral features tied to the breach of a net loss trigger.

(2) For two junior subordinated debt securities, Moody's has upgraded the rating by two notches to Ba3(hyb) from B2(hyb) (ISIN:AT000B000450, Moody's Debt ID: 809640880; ISIN:AT000B000518, Moody's Debt ID: 809783821), two notches below the adjusted BCA. The ratings reflect the rating agency's assessment of these instruments' cumulative coupon deferral mechanisms tied to the breach of a net loss trigger, but no longer reflect an assumption that payment of coupons is at management discretion.

(3) For two junior subordinated debt securities (ISIN:AT000B000062, Moody's Debt ID: 809202341; and ISIN:XS0143383148, Moody's Debt ID: 10323181), Moody's changed its rating approach back to normal notching from expected loss. The rating agency therefore upgraded the ratings to B1(hyb) from Caa1(hyb) for ISIN AT000B000062 and to B1(hyb) from B2(hyb) for ISIN XS0143383148, respectively. The ratings reflect the rating agency's assessment of these instruments' junior subordinated claim in liquidation and non-cumulative deferral features tied to the breach of a net loss trigger.

(4) The ratings of Erste's three non-cumulative preferred securities have been upgraded to B1(hyb), in-line with Moody's normal notching guidelines. The upgrades reflect Erste's announcement to resume coupon payments and the resulting limited effect on these perpetual instruments' recovery rates. Moody's believes that the risks for securities holders are therefore reflected in its normal notching approach as opposed to an expected loss rating. This led to three-notch upgrades to B1(hyb) from Caa1(hyb) for ISIN XS0268694808 (Moody's Debt ID:

809807559) and ISIN XS0215338152 (Moody's Debt ID: 808192280) and to a one-notch upgrade to B1(hyb) from B2(hyb) for ISIN XS0188305741 (Moody's Debt ID: 807484307).

WHAT COULD CHANGE THE RATING UP/DOWN

Upward (or downward) pressure could be exerted on Erste's junior subordinated and non-cumulative preferred securities as a result of an upgrade (or downgrade) of the bank's ba1 BCA.

Upward pressure on Erste's BCA would be prompted by (1) a further significant and sustained reduction in the volume of NPLs; (2) a sustained capitalisation displaying a fully-loaded common equity Tier 1 (CET1) ratio above 11%; and (3) a sustained improvement in the bank's operating performance and capital generation capacity. In addition, an upgrade would require the bank to maintain a solid risk management and corporate governance track record.

Downward pressure on Erste's BCA could follow (1) additional credit charges, in particular related to the bank's operations in Central and Eastern Europe; (2) reduced earnings resulting in lower internal capital generation capacity; and (3) sustained lower capitalisation levels.

In addition, Moody's would also reconsider the ratings in the event of an increased probability of a coupon suspension.

LIST OF AFFECTED RATINGS

The following ratings of Erste Group Bank AG were upgraded:

- Certain junior subordinate debt ratings to Ba3(hyb), from B1(hyb) (ISIN:XS0303559115)
- Certain junior subordinate debt ratings to Ba3(hyb), from B2(hyb) (ISIN:AT000B000450 and ISIN:AT000B000518)
- Certain junior subordinate debt ratings to B1(hyb), from Caa1(hyb) (ISIN:AT000B000062)
- Certain junior subordinate debt ratings to B1(hyb), from B2(hyb) (ISIN:XS0143383148)

The following ratings of Erste Capital Finance (Jersey) Tier I PC were upgraded:

- Non-cumulative preferred securities to B1(hyb), from Caa1(hyb) (ISIN:XS0268694808)

The following ratings of Erste Finance Jersey (6) Limited were upgraded:

- Backed non-cumulative preferred securities to B1(hyb), from Caa1(hyb) (ISIN:XS0215338152)

The following ratings of Erste Finance Jersey (4) Limited were upgraded:

- Non-cumulative preferred securities to B1(hyb), from B2(hyb) (ISIN:XS0188305741)

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in January 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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