MOODY'S
INVESTORS SERVICE

CREDIT OPINION
30 January 2018

Update

Rate this Research

RATINGS

Erste Group Bank AG	
Domicile	Vienna, Austria
Long Term Debt	A3
Type	Senior Unsecured - Fgn Curr
Outlook	Positive
Long Term Deposit	A3
Type	LT Bank Deposits - Fgn Curr
Outlook	Positive

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Erste Group Bank AG

Update to credit analysis

Summary

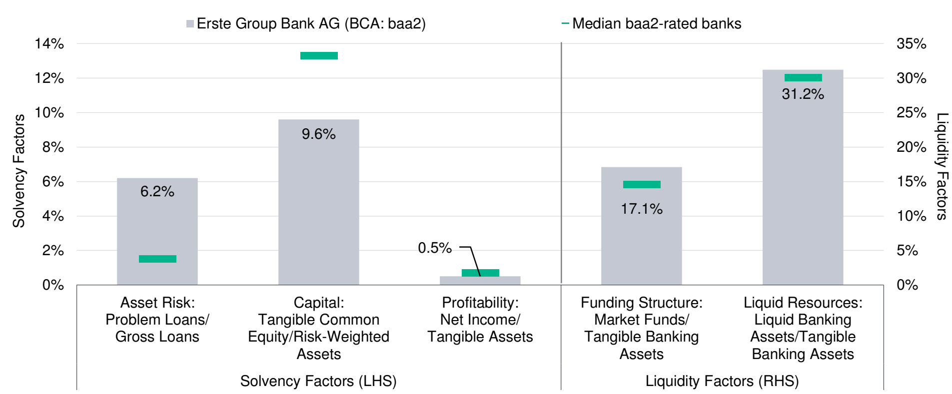
We assign A3/P-2 senior unsecured debt and deposit ratings with a positive outlook to Erste Group Bank AG (Erste). Furthermore, we assign a Baseline Credit Assessment (BCA) and Adjusted BCA of baa2, and a Counterparty Risk Assessment (CR Assessment) of A2(cr)/P-1(cr) to Erste.

Erste's ratings reflect (1) the bank's baa2 BCA and Adjusted BCA; and (2) the result of our Advanced Loss Given Failure (LGF[1]) analysis, which results in two notches of uplift to the bank's debt and deposit ratings.

Erste's baa2 BCA takes account of the achieved strengthening of the bank's key credit metrics and incorporates the sustained de-risking of its balance sheet, leading to meaningfully lower risk costs, and thereby supporting the bank's solid level of earnings and capital. If sustained, we see Erste on track towards a higher BCA, as expressed through our positive outlook. Any higher BCA would also be underpinned by Erste's very stable and sound funding profile, largely consisting of highly granular retail deposits and displaying very low market funding needs over the next few years.

The BCA further benefits from the bank's Strong Macro Profile displaying proportionally higher exposures towards the stronger and more stable countries in its leading retail and corporate Central and Eastern European (CEE) franchises, as well as in its home market, Austria.

Exhibit 1
Rating Scorecard - Key financial ratios



Note: Our definition of Tangible Common Equity (TCE) excludes domestic minority shares that are recognised as part of regulatory capital. Asset Risk and Profitability show three-year averages for Erste. Source: Moody's Financial Metrics

Credit strengths

» Deposit-rich funding profile with only moderate reliance on wholesale funding

» Highly liquid balance sheet mitigates potential funding market dislocations

» Significantly improved asset quality, following the successful problem loan reduction in CEE

» Sound earnings-generation capacity

Credit challenges

» Further improving capitalisation levels amid rising regulatory requirements and sustained business growth

» Defending asset quality in a more adverse market environment and establishing a track record of strong bottom line protection once credit risk costs normalise

» Maintaining prudent lending standards in a low interest-rate environment that pressures earnings and boosts loan demand

Outlook

» The positive outlook on Erste's senior debt and deposit ratings reflects our expectation of the bank maintaining the achieved improvements in asset quality and capital metrics over the next 12-18 months. This assessment also takes into account Erste's ability to sustain the current level of earnings over the medium-term.

» Moreover, a sustained increase in the volume and level of subordinated debt relative to the bank's tangible asset base may lead to higher rating uplift for the bank's senior debt and deposit ratings as a result of our Advanced LGF analysis, which currently provides two notches of rating uplift.

Factors that could lead to an upgrade

» Erste's ratings could be upgraded as a result of an upgrade of the bank's BCA or an increase in its subordinated debt volumes, or both.

» Upward rating pressure on Erste's baa2 BCA could be prompted by one of the following factors: (1) Sustaining the current problem loan ratio as well as defending a solid risk management track record and strict lending criteria; (2) a continued improvement of the bank's capitalisation metrics, and further building a meaningful buffer over and above the bank's SREP[2] ratio requirements; or (3) a continuation of the bank's solid operating performance around levels achieved in 2016.

» Upward rating pressure on the bank's debt and deposit ratings would also develop if it increases the amount of subordinated debt that could be bailed-in ahead of senior unsecured debt, providing one additional notch of rating uplift from our LGF analysis.

Factors that could lead to a downgrade

» Erste's long-term ratings could be downgraded as a result of (1) a downgrade of the bank's baa2 BCA; or (2) a significant decrease in its bail-in-able debt buffer, leading to fewer notches of rating uplift from our Advanced LGF analysis.

» Downward pressure on Erste's baa2 BCA could be exerted following (1) a renewed and sustained formation of problem loans and related loan-loss charges, in particular if stemming from the bank's operations in CEE or if resulting from a loosening of credit standards amid favourable operating conditions; (2) meaningfully weaker absolute as well as relative earnings levels; or (3) an unexpected weakening of the bank's currently solid capitalisation levels.

Key indicators

Exhibit 2
Erste Group Bank AG (Consolidated Financials) [1]

	9-17[2]	12-16[2]	12-15[2]	12-14[2]	12-13[3]	CAGR/Avg.[4]
Total Assets (EUR billion)	219	203	195	188	193	3.4[5]
Total Assets (USD billion)	259	214	212	227	265	-0.7[5]
Tangible Common Equity (EUR billion)	11	10	8.9	7.8	8.8	5.1[5]
Tangible Common Equity (USD billion)	13	11	9.6	9.5	12	0.9[5]
Problem Loans / Gross Loans (%)	4.3	4.9	7.1	8.5	9.6	6.9[6]
Tangible Common Equity / Risk Weighted Assets (%)	9.6	9.8	9.0	7.8	9.0	9.0[7]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	41.6	45.7	62.6	71.0	74.3	59.0[6]
Net Interest Margin (%)	2.0	2.2	2.3	2.3	2.3	2.2[6]
PPI / Average RWA (%)	2.2	2.2	2.6	2.4	2.6	2.3[7]
Net Income / Tangible Assets (%)	0.8	0.7	0.6	-0.3	0.3	0.4[6]
Cost / Income Ratio (%)	65.2	67.1	61.3	65.6	62.3	64.3[6]
Market Funds / Tangible Banking Assets (%)	17.1	17.1	19.4	21.1	22.9	19.5[6]
Liquid Banking Assets / Tangible Banking Assets (%)	32.3	31.2	29.7	30.1	31.3	30.9[6]
Gross Loans / Due to Customers (%)	96.0	98.1	103.2	105.0	104.7	101.4[6]

[1] All figures and ratios are adjusted using Moody's standard adjustments [2] Basel III - fully-loaded or transitional phase-in; IFRS [3] Basel II; IFRS [4] May include rounding differences due to scale of reported amounts [5] Compound Annual Growth Rate (%) based on time period presented for the latest accounting regime [6] Simple average of periods presented for the latest accounting regime. [7] Simple average of Basel III periods presented
Source: Moody's Financial Metrics

Profile

Erste Group Bank AG is the largest savings banks group in Austria and one of the largest financial services providers in CEE in terms of clients and total assets. The group serves more than 16 million customers through more than 2,500 branches in Austria and the eastern parts of the European Union.

The group focuses on private individuals and SMEs, yet also offers advisory services and support for corporate clients in financing, investment and access to international capital markets, public sector funding and interbank market operations. As of 30 September 2017, it reported a consolidated asset base of €222 billion. As of end-June 2017, Erste's market share in Austria in terms of loans and deposits (retail and corporate) was around 20%.

For more information, please see Erste's issuer profile.

Erste's Strong Macro Profile supports its credit profile

Erste benefits from operating in a diverse range of countries, with its home market of Austria accounting for around 50% of the bank's exposures as of year-end 2016. However, owing to its exposures to jurisdictions with slightly lower Macro Profiles (primarily the CEE economies) through its foreign subsidiaries, the overall Macro Profile for the bank is Strong, one notch below Austria's Strong+ Macro Profile.

The 2017 improvement in Erste's Macro Profile to Strong from Strong- takes into account the gradual shift in the bank's exposures towards CEE countries with higher Macro Profiles (for example, the Czech Republic) as opposed to those with weaker Macro Profiles (for example, Romania and Hungary). This shift is expected to be sustainable and we anticipate further improvements in the operating environment and, thus, potentially the Macro Profiles of some of the CEE countries the bank operates in, thereby supporting its weighted Macro Profile over the next 12-18 months.

Detailed credit considerations

Significantly improved asset quality following the successful problem loan reduction in CEE

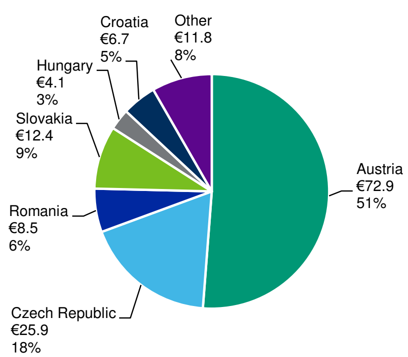
The baa3 Asset Risk score assigned to Erste is positioned one notch above the bank's ba1 macro-adjusted score. Our Asset Risk score takes account of the bank's substantially lowered problem loan exposures, particularly in CEE, combined with comfortable risk provisions, and our expectation of a more gradual decline in its problem loan ratio in 2018 and potentially beyond. This improvement in the bank's credit risk profile was supported by proactive portfolio sales and an underlying improvement in asset quality in its CEE markets, particularly in Romania and Hungary.

Erste's loan book remains based in its home market Austria (51% of gross customer loans), and continues to display a high exposure to CEE economies (see Exhibit 3), a clear differentiating factor versus other universal banks domiciled in other European countries. The bank benefits from holding market leading positions in many countries it operates in, and holds larger loan books in the Czech Republic, Slovakia and Romania. The group's loan book is well diversified, with a clear focus on household lending (predominantly mortgages) amounting to €68.9 billion or 48% of gross loans as of end-September 2017. Corporate loans of €61.6 billion or 43% remain focused on small and medium-sized enterprises in Austria and CEE. The remainder of the loan book consists of public finance, focused on Austria (€7.3 billion), and financial corporations (€4.4 billion).

Exhibit 3

Gross customer loans by country of origination

As of September 2017 in € billion

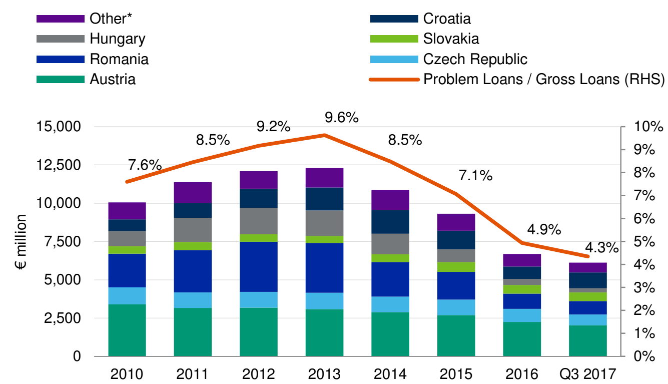


Source: Company data

Exhibit 4

Erste's development of non-performing loans by country

€ million



Note: *Other includes Serbia, Ukraine, other countries in the European Union, other industrialized countries and emerging markets.

Source: Company data

Erste reported a problem loan ratio of 4.9% as of year-end 2016 and 4.3% as of end-September 2017 (see Exhibit 4). The bank's coverage ratio, which excludes all non-cash collateral, further improved to 69.5% as of 30 September 2017 from 67.7% as of end-September 2016. We view these levels as sustainable during our outlook period, and any further improvement remains dependent on the bank maintaining tight control of its geographical concentrations and lending criteria amid favourable business conditions. Doing so will help avoid undue new problem loan formation, that would otherwise lead to higher future risk costs.

Higher capital buffers position Erste well to meet regulatory requirements, but the bank needs to ensure continued scrutiny on its capital retention policy

Erste's baa1 Capital score is positioned three notches above its ba1 macro-adjusted score. This positive adjustment captures additional capital resources initially not reflected in our calculation of the bank's Tangible Common Equity (TCE) ratio as of end-September 2017 (9.6%). The adjustment results from Erste's joint liability and institutional protection scheme (IPS) with the Austrian savings banks, under which the bank can freely access and transfer member banks' own funds in case of need[3]. Since this additional loss-absorbing capital at the level of the savings banks would be available to Erste prior to failure, we take account of these additional going-concern capital elements by adding those to our TCE. Our adjustment further captures the full regulatory approval of the Austrian savings banks' IPS, allowing Erste to report its Common Equity Tier 1 (CET1) capital on a consolidated basis without any reduction for its domestic minority shares, i.e. the capital held by the savings banks.

With a CET1 capital ratio of 12.4% on a fully loaded basis as of 30 September 2017 (including half-year 2017 retained earnings as well as the aforementioned savings banks' minorities), we consider Erste's capitalisation to be sufficient to cover the intrinsic risks of the bank's operating model, which is geared towards CEE. In addition, balance-sheet leverage is not a constraint for the bank, with its 6.3% fully loaded Basel III leverage ratio. The bank's higher earnings-generation power will likely allow for a sustained build-up of Erste's fully loaded CET1 ratio to above 13% over the next 12-18 months, despite pressure on its earnings from fierce competition, margin pressure in a persistently low interest-rate environment and continued high regulatory costs.

At the anticipated solid capital and profitability levels, the bank is well prepared to comply with upcoming regulatory requirements, specifically with regard to the gradual implementation and increase of a systemic risk buffer by the Austrian regulator (100 basis points, effective since the beginning of 2018 and growing to 200 basis points by 2019) and the currently expected fully loaded CET1 ratio minimum requirement of slightly above 11% in 2019 (excluding Pillar 2 CET1 guidance of 1.66% as of 2017) set by the European Central Bank as part of the bank's SREP requirements.

Solid level of earnings, despite continued strain from the persistently low interest rate environment and regulatory contributions

The baa3 Profitability score assigned to Erste is one notch above its historic ratio, reflecting the bank's current profitability level that we expect to be largely sustained during our outlook period. Over the next two to three years, however, the bank will primarily be subject to net interest margin and earnings pressures from the persistently low interest rate environment as loans and liquid financial investments reprice to lower rates. Because the bank's revenues are geared into net interest income (approximately two thirds of total revenues as of end-September 2017), the key challenge for Erste will be to mitigate net interest income pressures without compromising on its risk standards and growth limits in CEE.

In addition, domestic and foreign bank levies, as well as contributions to various resolution funds and deposit guarantee schemes have increased the bank's regulatory expenses over the past years, although the burden declined substantially in 2017 following the Government of Austria's (Aa1 stable) decision to reduce the domestic bank levy following a one-off payment in 2016. The bank also remains vulnerable to the risk of an overall economic slowdown in CEE (which is unlikely at present), leading to higher risk charges, as well as to idiosyncratic developments in single countries[4].

Overall, and supported by our expectation of an only gradual increase in risk costs, we expect profitability to remain stable around prior-years (2016 and 2017) levels.

As of 30 September 2017, Erste reported a 16% decline in its bottom-line profitability (after minorities) to €988 million from a year earlier, largely owing to the absence of meaningful positive one-off effects such as the VISA sale in Q2 2016. The results were supported by continued very low risk costs of €72 million[5], as well as stable core operating earnings. This was partially offset by higher operating expenses due to the implementation of ongoing regulatory as well as IT projects. The bank's CEE operations accounted for 48% of its pre-tax profits, with each of the bank's non-Austrian operations contributing positively to the result.

Deposit-rich and highly liquid balance sheet, with moderate reliance on wholesale funding

Erste's a3 Funding Structure score, which is assigned one notch above the baa1 macro-adjusted score, reflects the bank's balanced funding profile and a continued decline in wholesale funding dependence.

The bank continues to benefit from its access to a broad and diversified base of customer deposits largely obtained from retail as well as small and medium-sized enterprises, contributing approximately two thirds of the bank's total funding. Around 55% of the bank's customer deposits are generated from its domestic Austrian operations, with the remainder being CEE-related deposits (although concentrated in the Czech Republic and Slovakia). The bank's funding structure continues to be a relative strength, with a sustained loan-to-deposit ratio below 100% over the past few years (Q3 2017: 93.0%, 2016: 94.7% and 2015: 98.4%).

Market funding was reduced continuously within the last year and reflected 17.1% of the bank's tangible banking assets as of the same date. A declining proportion of Erste's funding is raised through senior and subordinated debt securities (€15.1 billion as of end-September 2017), with the remainder largely consisting of covered bonds (€9.4 billion). We estimate Erste's annual long-term refinancing needs to be around €2-3 billion for the next two years, a very low figure compared with the bank's balance sheet size of

€222 billion as of 30 September 2017. Additionally, the bank's market funding profile benefits from an average debt maturity of around eight years.

We assign a baa1 Liquid Resources score to Erste, one notch below the bank's a3 Macro-Adjusted score. The negative adjustment takes account of some limited asset encumbrance. Otherwise, we regard Erste's liquidity position as comfortable with liquid assets such as cash and unencumbered trading and financial assets equivalent to around 30% of its balance sheet as of end-September 2017[6].

Support and structural considerations

Loss Given Failure (LGF) analysis

Erste is subject to the European Union Bank Recovery and Resolution Directive, which we consider an operational resolution regime. Therefore, we apply our Advanced LGF analysis, considering the risks faced by the different debt and deposit classes across the liability structure, should the bank enter resolution. In line with our standard assumptions, we assume residual tangible common equity of 3% and losses post failure of 8% of tangible banking assets, a 25% runoff in junior wholesale deposits, a 5% runoff in preferred deposits, and assign a 25% probability to deposits being preferred to senior unsecured debt.

For Erste's senior unsecured debt and deposits, our Advanced LGF analysis indicates a very low loss given failure, leading to two notches of rating uplift from the bank's baa2 Adjusted BCA.

Additional notching for subordinated and hybrid debt instruments

For other junior debt classes, our Advanced LGF analysis indicates a high loss given failure, given the limited volume of debt and limited protection from more subordinated instruments and residual equity. Absent of any government support uplift, Erste's subordinated debt is rated Baa3, one notch below the bank's baa2 Adjusted BCA.

Additional notching applies to Erste's junior subordinated debt instruments, reflecting the risk of a missed coupon payment and the timeliness of those payments. The bank's cumulative junior subordinated debt maturing in June 2019 (ISIN: XS0303559115) is rated Ba1(hyb), two notches below the bank's baa2 Adjusted BCA. The rating reflects the junior subordinated claim in liquidation and cumulative deferral features tied to the breach of a net loss trigger.

Additional Tier 1 (AT1) instruments

We assign a (P)Ba2 rating to Erste's AT1 note programme and a Ba2(hyb) rating to the two €500 million AT1 notes issued under the programme, three notches below the bank's baa2 Adjusted BCA. The ratings reflect our assessment of the instruments' deeply subordinated claim in liquidation, as well as their non-cumulative coupon deferral features. In addition, the securities' principal is subject to a partial or full write-down on a contractual basis if (1) Erste's CET1 ratio falls below 5.125%, (2) the issuer receives public support, or (3) the Austrian Financial Market Authority determines that the conditions for a full write-down of the instrument are fulfilled and orders such a write-down as a precautionary measure to prevent insolvency.

Government support considerations

We do not include government support in our Austrian banks' ratings, assuming a low probability of Erste receiving support from the Government of Austria. We base our assumption on the wider scope of the Bank Recovery and Resolution Directive implementation in Austria and its application, illustrating the Austrian government's willingness to apply burden sharing to bondholders[7].

Counterparty Risk Assessment

The Counterparty Risk (CR) Assessment is an opinion of how counterparty obligations are likely to be treated if a bank fails and is distinct from debt and deposit ratings in that it (1) considers only the risk of default rather than both the likelihood of default and the expected financial loss suffered in the event of default; and (2) applies to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR Assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (e.g. swaps), letters of credit, guarantees and liquidity facilities.

Erste's CR Assessment is A2(cr)/P-1(cr).

The bank's CR Assessment is positioned three notches above the bank's baa2 Adjusted BCA, based on the substantial cushion against default provided to the senior counterparty obligations by more junior instruments, such as senior unsecured debt and dated subordinated debt. To determine the CR Assessment, we focus purely on subordination, taking no account of the volume of the instrument class.

Methodology and scorecard

Methodology

The principal methodology we use in rating Erste Group Bank AG was the Banks methodology published in September 2017.

About Moody's Bank Scorecard

Our Bank Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 5

Erste Group Bank AG

Macro Factors		
Weighted Macro Profile	**Strong**	**100%**

Factor	**Historic Ratio**	**Macro Adjusted Score**	**Credit Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	6.2%	ba1	←→	baa3	Quality of assets	Expected trend
Capital						
TCE / RWA	9.6%	ba1	←→	baa1	Capital fungibility	Expected trend
Profitability						
Net Income / Tangible Assets	0.5%	ba1	←→	baa3	Return on assets	Expected trend
Combined Solvency Score		ba1		baa2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	17.1%	baa1	←→	a3	Deposit quality	Extent of market funding reliance
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	31.2%	a3	←→	baa1	Asset encumbrance	Stock of liquid assets
Combined Liquidity Score		baa1		a3		
Financial Profile				baa1		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint:				Aa1		
Scorecard Calculated BCA range				a3-baa2		
Assigned BCA				baa2		
Affiliate Support notching				0		
Adjusted BCA				baa2		

Balance Sheet	**in-scope (EUR million)**	**% in-scope**	**at-failure (EUR million)**	**% at-failure**
Other liabilities	37,307	26.9%	45,442	32.8%
Deposits	79,750	57.6%	71,616	51.7%
Preferred deposits	59,015	42.6%	56,064	40.5%
Junior Deposits	20,735	15.0%	15,551	11.2%
Senior unsecured bank debt	10,363	7.5%	10,363	7.5%
Dated subordinated bank debt	5,874	4.2%	5,874	4.2%
Junior subordinated bank debt	20	0.0%	20	0.0%
Preference shares (bank)	1,000	0.7%	1,000	0.7%
Equity	4,154	3.0%	4,154	3.0%
Total Tangible Banking Assets	138,468	100%	138,468	100%

Debt class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Assessment	26.7%	26.7%	26.7%	26.7%	3	3	3	3	0	a2 (cr)
Deposits	26.7%	8.0%	26.7%	15.5%	2	3	2	2	0	a3
Senior unsecured bank debt	26.7%	8.0%	15.5%	8.0%	2	2	2	2	0	a3
Dated subordinated bank debt	8.0%	3.7%	8.0%	3.7%	-1	-1	-1	-1	0	baa3
Junior subordinated bank debt	3.7%	3.7%	3.7%	3.7%	-1	-1	-1	-1	-1	ba1 (hyb)
Non-cumulative bank preference shares	3.7%	3.0%	3.7%	3.0%	-1	-1	-1	-1	-2	ba2 (hyb)

Instrument class	Loss Given Failure notching	Additional Notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Assessment	3	0	a2 (cr)	0	A2 (cr)	--
Deposits	2	0	a3	0	A3	A3
Senior unsecured bank debt	2	0	a3	0	A3	A3
Dated subordinated bank debt	-1	0	baa3	0	Baa3	--
Junior subordinated bank debt	-1	-1	ba1 (hyb)	0	Ba1 (hyb)	--
Non-cumulative bank preference shares	-1	-2	ba2 (hyb)	0	Ba2 (hyb)	--

Source: Moody's Financial Metrics

Ratings

Exhibit 6

Category	Moody's Rating
ERSTE GROUP BANK AG	
Outlook	Positive
Bank Deposits	A3/P-2
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa2
Counterparty Risk Assessment	A2(cr)/P-1(cr)
Senior Unsecured	A3
Senior Subordinate -Dom Curr	Baa3
Jr Subordinate -Dom Curr	Ba1 (hyb)
Pref. Stock Non-cumulative -Dom Curr	Ba2 (hyb)
Commercial Paper -Dom Curr	P-2
Other Short Term -Dom Curr	(P)P-2
CESKA SPORITELNA, A.S.	
Outlook	Stable
Bank Deposits	A2/P-1
Baseline Credit Assessment	baa1
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A1(cr)/P-1(cr)
ERSTE BANK HUNGARY ZRT.	
Outlook	Stable(m)
Bank Deposits	Baa3/P-3
Baseline Credit Assessment	b1
Adjusted Baseline Credit Assessment	ba2
Counterparty Risk Assessment	Baa2(cr)/P-2(cr)
ERSTE BANK, NEW YORK	
Outlook	Positive
Bank Deposits	A3/--
Counterparty Risk Assessment	A2(cr)/P-1(cr)
ERSTE FINANCE (DELAWARE) LLC	
Bkd Commercial Paper	P-2
BANCA COMERCIALA ROMANA S.A.	
Outlook	Stable(m)
Bank Deposits	Baa3/P-3
Baseline Credit Assessment	b1
Adjusted Baseline Credit Assessment	ba2
Counterparty Risk Assessment	Baa2(cr)/P-2(cr)

Source: Moody's Investors Service

Endnotes

1 Our Advanced LGF analysis takes into account the severity of loss faced by the different liability classes in resolution.

2 Supervisory Review and Evaluation Process, as determined by the European Central Bank.

3 The transfer of the amount of own funds is limited to capital elements exceeding the respective member bank's minimum capital requirement. As such, any individual member of the IPS is only obliged to contribute to the extent that such a contribution does not result in a violation of the regulatory requirements applicable to that member.

4 However, the burden of these often politically driven consumer protection one-off charges has been booked against the profit and loss account measures (for example, foreign-currency-denominated loans in Hungary, Croatia and Romania), and hence lies behind Erste.

5 In 2016, as well as in Q3 2017, Erste's risk costs remained near historically low levels (9M 2017: 7 basis points; 2016: 14 basis points), supported by substantial recoveries on loans already written off. During 2018 and likely beyond, we expect the bank's loan-loss charges to increase as write-backs on recoveries will fade from current levels, leading to a normalisation in risk costs.

6 These considerations also take into account the Austrian regulator's recommendation that the country's three major banks limit their new lending in CEE subsidiaries to 110% of local deposits, plus funding in local capital markets and funding from supranational institutions. This more locally based funding model mitigates potential risks resulting from possible funding imbalances in local markets. Erste displayed a sound liquidity profile as of year-end 2016, with deposits exceeding loans for all of the bank's larger CEE franchises.

7 This application has triggered the resolution of Heta Asset Resolution AG.

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