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CREDIT OPINION
26 November 2019

Update

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**RATINGS**

**Erste Group Bank AG**

| | |
|---|---|
| Domicile | Vienna, Austria |
| Long Term CRR | A1 |
| Type | LT Counterparty Risk Rating - Fgn Curr |
| Outlook | Not Assigned |
| Long Term Debt | A2 |
| Type | Senior Unsecured - Fgn Curr |
| Outlook | Positive |
| Long Term Deposit | A2 |
| 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.*


**Contacts**

Michael Rohr +49.69.70730.901
*Senior Vice President*
michael.rohr@moodys.com

Andrea Wehmeier +49.69.70730.782
*VP-Senior Analyst*
andrea.wehmeier@moodys.com

Alexander Hendricks, CFA +49.69.70730.779
*Associate Managing Director*
alexander.hendricks@moodys.com


# Erste Group Bank AG

## Semiannual update

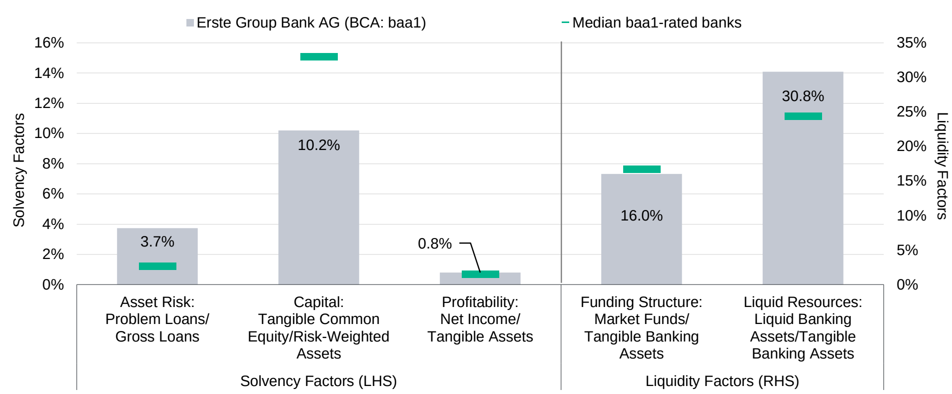
## Summary


We assign A2 (positive) senior unsecured debt and deposit ratings to Erste Group Bank AG (Erste), as well as a baa1 Baseline Credit Assessment (BCA) and Adjusted BCA, and an A1 Counterparty Risk Rating (CRR).

Erste's ratings reflect (1) the bank's baa1 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 A2 senior unsecured debt and deposit ratings, and no uplift for its (P)Baa1 junior senior unsecured debt (programme) rating.

Erste's baa1 BCA reflects the bank's favourable funding profile, displaying a high and rising share of highly granular retail deposits and a very limited need to access confidence-sensitive wholesale funding markets, further supported by a significant volume of liquid resources. The bank's BCA is further supported by its solid capitalisation and its de-risked balanced sheet, which results in lower risk costs through the cycle and an enhanced earnings-generation capacity. At the same time, Erste remains susceptible to adverse developments in the CEE region[2], which could cause larger loan losses in a highly adverse scenario.


Exhibit 1
**Rating Scorecard Erste Group Bank AG - Key financial ratios**




Note: Our definition of tangible common equity (TCE) excludes domestic minority shares that are recognised as part of regulatory capital.
Data as of H1 2019. Asset Risk and Profitability show the three-year averages for Erste, Liquidity Factors data as of year-end 2018.
*Sources: Company reports, Moody's Investors Service*

## Credit strengths

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

» Highly liquid balance sheet, which mitigates potential funding market dislocations

» Sound earnings generation capacity compared with that of its direct peers

## Credit challenges

» 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 strains earnings and boosts loan demand

» Improving capitalisation further amid rising regulatory requirements and sustained business growth

## Outlook

» The positive outlook reflects the potential for a higher rating uplift under our Advanced LGF analysis, subject to further issuance of sufficient volumes of MREL-compliant[3] debt instruments subordinated to (preferred) senior unsecured debt and (junior) deposits.

## Factors that could lead to an upgrade

» Erste's ratings could be upgraded because of an upgrade of its BCA. Upward pressure on Erste's baa1 BCA would be prompted by a combination of all of the following factors: (1) A further significant and sustained reduction in the volume of problem loans, specifically if this led to a problem loan ratio of meaningfully below 4% through the cycle, and provided the bank maintains its solid risk management track record and strict lending criteria; (2) A sustained and further improvement in Erste's capitalisation metrics building a sizeable buffer above the bank's fully loaded SREP[4] ratio requirements; and (3) Erste improving its operating performance such that it achieves higher profitability levels above those of prior years.

» Upward rating pressure on the bank's senior unsecured debt and junior deposit ratings could materialise if the bank meaningfully, and on a sustained basis, increased the amount of junior senior unsecured or subordinated debt that could be bailed in ahead of senior unsecured debt and junior deposits, providing one additional notch of rating uplift to these debt classes from our Advanced LGF analysis.

## Factors that could lead to a downgrade

» Downward pressure could be exerted on Erste's long-term ratings as a result of: (1) a downgrade of its baa1 BCA; or (2) a decrease in its bail-inable debt cushion, leading to fewer notches of rating uplift as a result of our Advanced LGF analysis.

» Downward pressure on Erste's baa1 BCA could be exerted following: (1) An increase in the group's reliance on confidence-sensitive wholesale funding sources beyond our current expectations; (2) A meaningful and sustained formation of problem loans and related loan-loss charges, in particular if such loans are stemming from the bank's operations in CEE or if resulting from a loosening of credit standards amid worsening operating conditions; (3) A significant and unexpected weakening in the bank's capital adequacy metrics, in particular if coupled with a narrowing of the bank's capital buffers versus its SREP requirements; or (4) A sudden and significant weakening in the bank's earnings generation power.

» Downward rating pressure on the bank's junior deposits, senior unsecured debt, or junior senior unsecured debt could develop if the relevant bail-inable debt cushion decreases significantly, leading to a lower rating uplift as a result of our Advanced LGF analysis.

## Key indicators

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

| | 06-19[2] | 12-18[2] | 12-17[2] | 12-16[2] | 12-15[2] | CAGR/Avg.[3] |
|---|---|---|---|---|---|---|
| Total Assets (EUR Billion) | 246.0 | 233.7 | 216.6 | 202.8 | 194.8 | 6.9[4] |
| Total Assets (USD Billion) | 280.1 | 267.1 | 260.0 | 213.9 | 211.6 | 8.3[4] |
| Tangible Common Equity (EUR Billion) | 12.2 | 12.2 | 11.0 | 10.0 | 8.9 | 9.4[4] |
| Tangible Common Equity (USD Billion) | 13.9 | 13.9 | 13.3 | 10.6 | 9.7 | 10.8[4] |
| Problem Loans / Gross Loans (%) | 2.8 | 3.2 | 4.0 | 4.9 | 7.1 | 4.4[5] |
| Tangible Common Equity / Risk Weighted Assets (%) | 10.2 | 10.5 | 9.9 | 9.7 | 9.0 | 9.9[6] |
| Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%) | 28.7 | 30.6 | 38.5 | 45.6 | 62.5 | 41.2[5] |
| Net Interest Margin (%) | 1.9 | 2.0 | 2.0 | 2.2 | 2.3 | 2.1[5] |
| PPI / Average RWA (%) | 2.1 | 2.0 | 2.2 | 2.2 | 2.6 | 2.2[6] |
| Net Income / Tangible Assets (%) | 0.8 | 0.9 | 0.8 | 0.7 | 0.6 | 0.8[5] |
| Cost / Income Ratio (%) | 65.3 | 65.1 | 64.9 | 66.6 | 61.3 | 64.6[5] |
| Market Funds / Tangible Banking Assets (%) | 16.0 | 16.4 | 15.8 | 17.0 | 19.4 | 16.9[5] |
| Liquid Banking Assets / Tangible Banking Assets (%) | 30.8 | 30.5 | 31.6 | 31.2 | 29.7 | 30.8[5] |
| Gross Loans / Due to Customers (%) | 92.7 | 93.1 | 95.1 | 98.1 | 103.2 | 96.4[5] |

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

## Profile

Erste Group Bank AG (Erste) is the largest savings bank group in Austria (Aa1 stable) and one of the largest financial service providers in Central and Eastern Europe (CEE) in terms of clients and total assets. The group serves more than 16 million customers through approximately 2,500 branches in Austria and the eastern parts of the European Union (EU).

The group focuses on private individuals and small and medium-sized enterprises (SMEs), and offers advisory services and support for corporate clients in financing and investment, and access to the international capital markets, public-sector funding and interbank market operations. As of 30 September 2019, Erste reported a consolidated asset base of €252 billion. The bank's market share in Austria in terms of loans and deposits (retail and corporate) was around 20%.

### 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 2018. However, because of its exposures to jurisdictions with slightly lower Macro Profiles (primarily the CEE economies) through its foreign subsidiaries, the overall asset-weighted Macro Profile for the bank is Strong, one notch below Austria's Strong+ Macro Profile.

## Recent developments

On 21 November 2019, Erste hosted its Capital Markets Day. The bank slightly lowered its return on tangible equity (ROTE) target to 'above 10%' for 2020 from 'above 11%' in 2019, thereby maintaining a double-digit ROTE trajectory for the sixth consecutive year. In addition, over the next 4-5 years, Erste aims to grow its net fee and commission income by €400 million or more than 20% to €2.4 billion, mitigating expected strain from the persistent low interest-rate environment. In addition, Erste aims to keep operating expenses as well as risk costs contained, thereby reducing the cost-to-income ratio further to 55% by 2024 (Q3 2019 reported: 56.3%). If successful, the continued sound earnings generation, as well as the constant execution of the bank's CEE-geared strategy, will help sustain Erste's financial profile.

## Detailed credit considerations

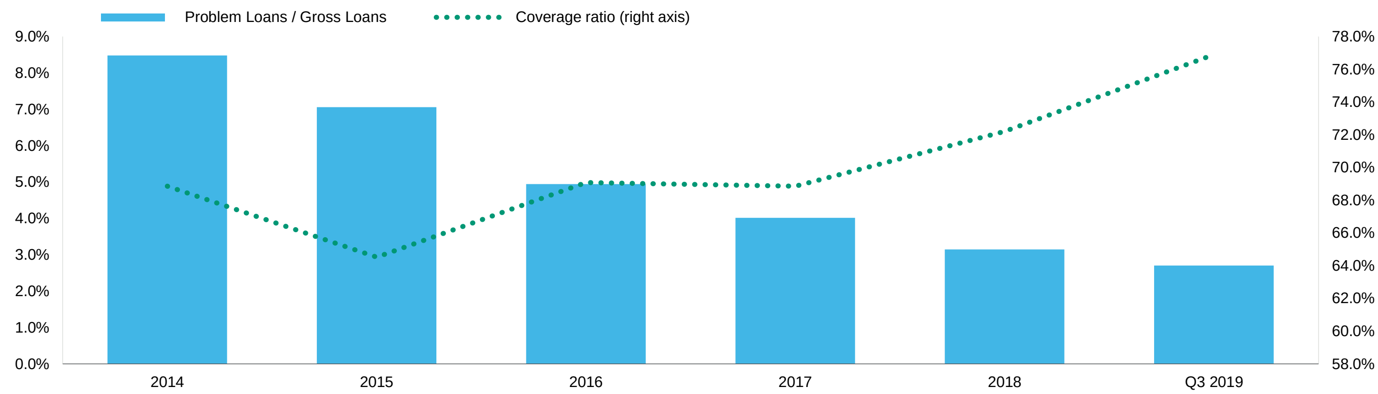
### Improved asset quality supports higher profitability

The baa2 Asset Risk score assigned to Erste is one notch below the baa1 initial score, taking account of the bank's problem loan exposures (Exhibit 3), particularly in CEE, although combined with comfortable coverage ratios. We expect Erste's problem loan ratio to remain stable in 2019 and potentially beyond (Q3 2019: 2.7%). The assigned score also takes into account the sensitivity of Erste's CEE exposures to downturns in macroeconomic conditions, and the group's recent stronger loan growth, largely derived from CEE (gross loan growth of 5.9% in Q3 2019 year-over-year).

Exhibit 3

**Erste has significantly lowered its problem loan exposures**

**Nonperforming loan stock developments and coverage, 2014 - Q3 2019**




*Source: Sources: Company reports, Moody's Investors Service*

Erste's loan book is based in its home market of Austria (approximately 50% of total gross customer loans as of 30 September 2019) and continues to display a high exposure to the CEE economies, a clear differentiating factor in comparison with the universal banks domiciled in other European countries. The bank benefits from holding market-leading positions in many countries where it operates and holds larger loan books in the Czech Republic (Aa3 stable), Slovakia (A2 stable) and Romania (Baa3 stable). The group's loan book is well diversified, with a clear focus on retail lending (predominantly mortgages), amounting to €81.5 billion or 51% of gross customer loans as of 30 September 2019. The bank's remaining loan book largely consists of corporate loans focused on SMEs in Austria and CEE.

Erste reported a problem loan ratio of 2.7% as of 30 September 2019. The bank's coverage ratio, which excludes all non-cash collateral, improved to 76.9% as of the same date from 73.4% as of 31 December 2018 (FY 2017: 68.8%). We view these levels as very sound, and appropriate to shield Erste from undue losses resulting from its problem loans, subject to the bank maintaining a tight control over 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.

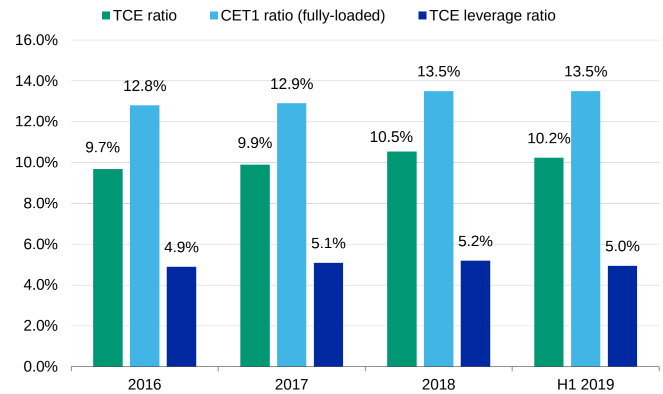
### Business growth and regulatory tightening challenge Erste to balance capital build-up with its capital distribution policy

Erste's baa1 Capital score is positioned two notches above its baa3 initial 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 year-end 2018 (10.5%). The additional loss-absorbing capital stems from Erste's joint liability and institutional protection scheme with the Austrian savings banks, under which the bank can freely access and transfer member banks' own funds in case of need[5]. Because this additional loss-absorbing capital at the level of the savings banks would be available to Erste before failure, we take into account these additional going-concern capital elements by adding them to our TCE.

With a reported CET1 ratio of 13.1% as of 30 September 2019, we consider Erste's capitalisation 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, displaying a Basel 3 leverage ratio of 6.5% as of the end of the third quarter and a TCE leverage ratio around 5.0% (Exhibit 4). At the expected capital and profitability levels, the bank remains sufficiently prepared to comply with regulatory requirements, specifically with regard to increases in the systemic risk buffer by the Austrian regulator (200 bps, effective since the beginning of 2019) and the expected CET1 ratio minimum requirement of slightly above 11% in 2019 (11.2%; excluding expected Pillar 2 CET1 guidance of 1.0% as of year-end 2019) set by the European Central Bank as part of the bank's SREP requirements (Exhibit 5).

Exhibit 4

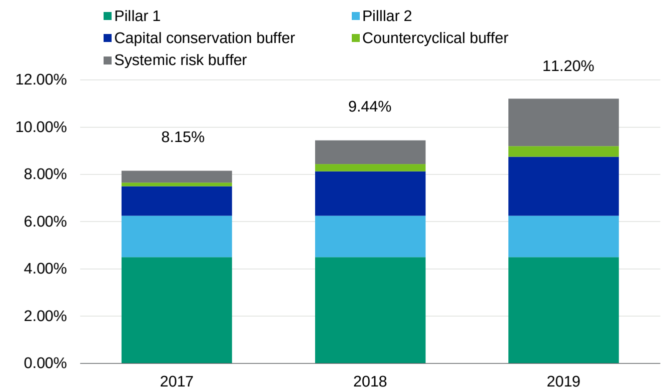
**Erste's capitalisation sufficiently absorbs the inherent risks of its CEE-exposed business model**




Note: The chart displays TCE ratios as computed by Moody's. TCE = Tangible Common Equity; CET1 = Common Equity Tier 1.
*Sources: Company reports, Moody's Investors Service*

Exhibit 5

**Erste's SREP CET1 requirements in detail**



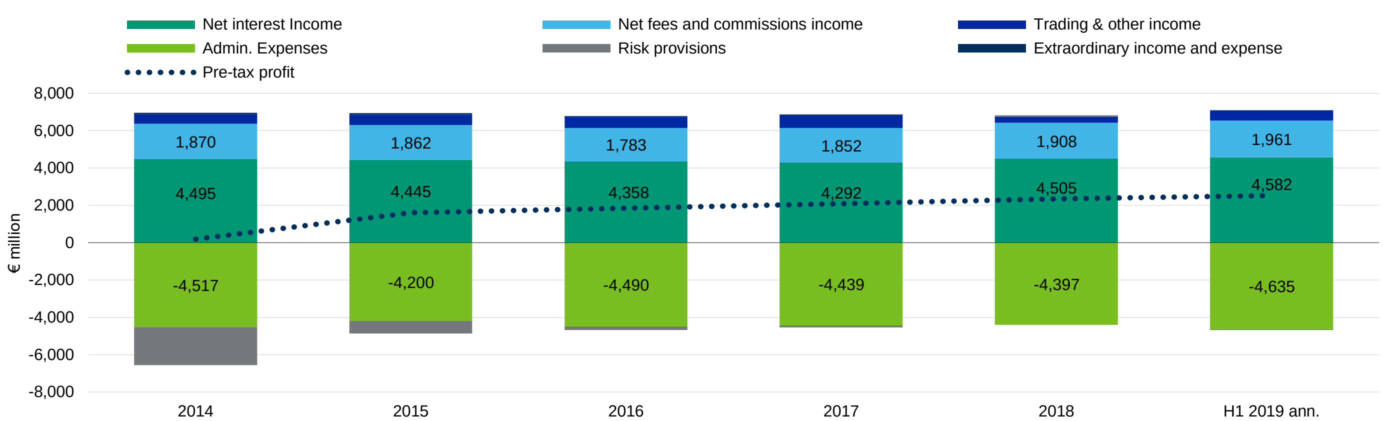

Note: Exhibit displays fully-loaded SREP requirement for 2019, transitional for prior years. Excludes Pillar 2 CET1 guidance of around 100 bps.
*Sources: Company reports, Moody's Investors Service*

## Solid level of earnings, despite continued strain from the persistently low interest rate environment

The baa3 Profitability score assigned to Erste is one notch below its baa2 initial score, reflecting our view that the bank's current profitability level will be difficult to defend in a more challenging market environment and our anticipation of a normalising credit cycle. Overall, and supported by our expectation of an only gradual increase in risk costs, we expect profitability to remain virtually stable at levels slightly below those achieved on average in prior years, that is, within the baa3 Profitability score range for the group's Strong Macro Profile (0.50%-0.75% net income/tangible assets; 2016-18: average 0.79%).

Exhibit 6

**Continued absence of loan loss provisions supports otherwise solid underlying profitability**
**Costs burdened by building society provision in Romania**




*Sources: Company reports, Moody's Investors Service*

Because Erste's revenue is primarily generated from net interest income (around two-thirds of total revenue), the key challenge for the bank will be to mitigate net interest income pressures from the constant re-pricing of loans and liquid financial investments to lower rates in Erste's euro area countries. This is likely to be only partially offset by the relative benefits to Erste's net interest income as a result of relatively higher interest rates in non-euro area countries, in particular the Czech Republic and Romania. However, during the third quarter of 2019, ten-year government bond yields also came under significant strain in Erste's CEE countries as a result of the

European central bank's decision to cut interest rates further. This will gradually start putting pressure on net interest income in Erste's main CEE growth regions and we anticipate that targeted growth in fee income will not be able to compensate for this over the next 12-18 months.

In addition, and as the loan book in CEE matures and the very benign credit cycle eventually normalises, risk costs are likely to increase from the currently subdued levels, further exerting pressure on the group's profitability in 2020 and potentially beyond. In order to preserve its strong asset quality, Erste has to continue its policy of not compromising on its risk standards and lending growth limits in what is still considered a relatively favourable macroeconomic environment in most CEE countries it operates in.

For the first nine months of 2019, Erste reported a net profit of €1.2 billion, virtually unchanged from a similarly strong performance achieved in the prior-year period, and included a €151 million provision for a pending court case in Romania in relation to the bank's local building society booked in Q2 2019. The results were supported by a continued benign credit cycle, with net loan loss charges totaling €43 million (or a negligible 3 basis points of gross loans), and continued positive operating leverage.

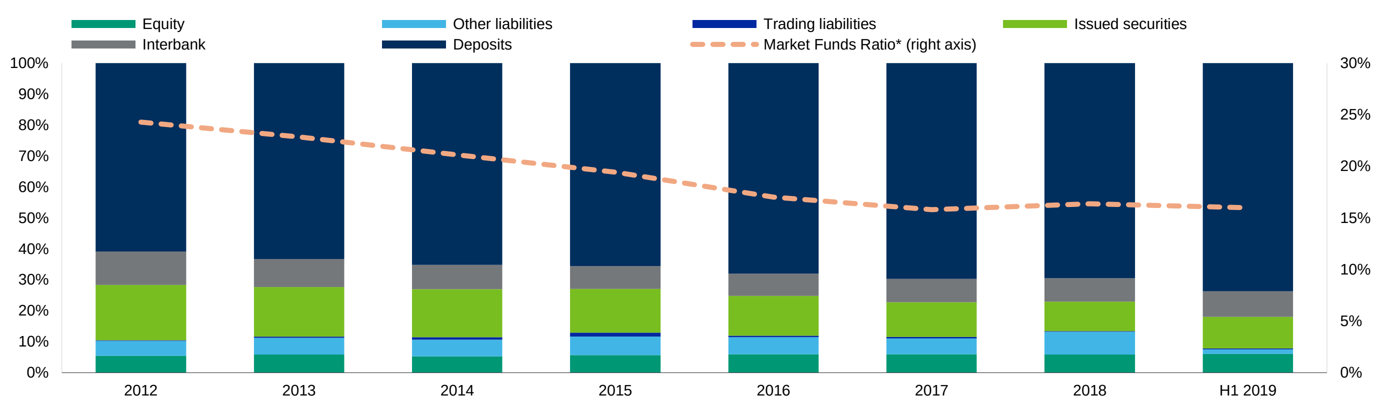
### Deposit-rich funding profile, with only moderate reliance on wholesale funding

Erste's a3 Funding Structure score, which is one notch above the baa1 initial score, continues to reflect the bank's balanced funding profile, characterized by stability in its only moderate wholesale funding dependence and a high granularity of its deposit base.

Erste continues to benefit from its access to a broad and diversified base of customer deposits, largely obtained from retail and SMEs, contributing around 70% 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 group's market-leading positions in its domestic and many of its local CEE markets (displaying deposit market shares around 20%) support the gathering of additional low-cost deposits. The bank's funding structure therefore remains a relative strength, and the sustained loan-to-deposit ratio of below 100% over the past few years benefitted from continued strong deposit inflows (Q3 2019: 91.5%, 2018: 91.8%).

Exhibit 7

**Sustained lower market funding reliance is a credit strength**




*Market Funds Ratio = Market Funds/Tangible Banking Assets (TBA).
*Sources: Company reports, Moody's Investors Service*

Market funding slightly increased during 2018 and was kept stable during the first nine months of 2019. A stable proportion of Erste's funding was raised through senior unsecured and subordinated debt securities (€15.9 billion as of 30 September 2019), with the remainder largely consisting of a relatively higher portion of covered bonds (€13.4 billion). We estimate that the bank's annual long-term refinancing needs will be in the range of €2-3 billion for the next two to three years, a very low figure compared with the bank's balance-sheet size of €252 billion as of 30 September 2019. Additionally, the bank's market funding profile benefits from an average debt maturity of around eight years.

Within the bank's larger CEE franchises, Erste displayed a loan-to-deposit ratio below 100% and has achieved a significant improvement in its efforts to fund locally-generated loans with local funding (mostly deposits). This has reduced the group's vulnerability to funding imbalances among its various entities[6]. However, and depending on the final definition of regulatory requirements such as the MREL, the market funding ratio may increase through additional funding needs within Erste's domestic and CEE franchises in the coming years.

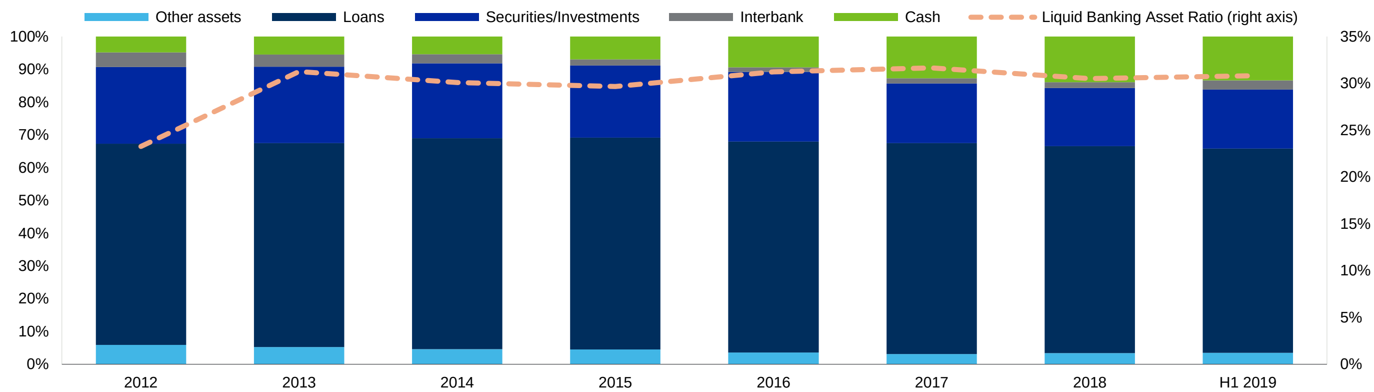
### Highly liquid balance sheet mitigates potential funding market dislocations

We assign a baa1 Liquid Resources score to Erste, one notch below the bank's a3 initial score. The negative adjustment takes into account some limited asset encumbrance.

We regard Erste's balance-sheet liquidity as comfortable, with liquid banking assets - such as cash and unencumbered trading and financial assets - equivalent to approximately 30% of its total balance sheet as of 30 September 2019 (Exhibit 8). We further regard the quality of the group's liquid assets as high because they largely consist of central bank cash and highly rated government securities. The bank's high liquidity is underpinned through its regulatory liquidity coverage ratio, which stood at 146% as of 30 September 2019. In addition, the bank's liquidity benefits from an excess over-collateralisation of around €2.4 billion as of 30 June 2019, largely stemming from its mortgage covered bond pool.

Exhibit 8

**Erste displays sound balance sheet liquidity**




*Liquid Banking Asset Ratio = Liquid Banking Assets/Tangible Banking Assets (TBA).
*Sources: Company reports, Moody's Investors Service*

## Environmental, social and governance (ESG) considerations

The global banking sector has been classified as “Low” risk in our environmental (E) risk heatmap[7] and as “Moderate” risk in our social (S) risk heatmap[8]. Erste's exposure to E and S risks is in line with our general assessment for the global banking industry.

The bank's investment portfolio is well diversified by industry and, although geographically concentrated in Austria and CEE countries, not considered to be particularly exposed to any relevant environmental risk in the regions of operation.

In terms of social risks, Erste has occasionally experienced consumer-friendly court rulings on some of its products (for instance, foreign-currency loans in CEE, or - most recently - the Romanian court ruling on building society loans). The Czech National Bank's (CNB) revised interpretation of the 2016 Czech Consumer Credit Act, could also - if maintained - allow borrowers to terminate lending contracts early without having to bear foregone interest, lowering the bank's net interest income if many customers make use of their new optionality. In any of the situations arising, Erste has been proactively approaching customers, regulators and other stakeholders and taken immediate provisions mitigating any negative effect such instances could have had on the bank's future profitability. We are not aware of any additional social risk drivers potentially affecting the credit profile of Erste going forward, mainly owing to the high diversification of its business model across countries and its proven swift reaction to sudden policy or law changes.

Governance[9] is highly relevant for Erste, as it is to all banks, but more specifically due to the complexity of its multi-country operations. However, we do not have any particular governance concern for Erste, and we do not apply any corporate behaviour adjustment to the bank, largely owing to the stability of its CEE-geared strategy and constant execution over the past 20 years. Nonetheless, corporate governance remains a key credit consideration given new emerging risks and continues to be a subject of our ongoing monitoring.

## Support and structural considerations

### Loss Given Failure (LGF) analysis

Erste is subject to the European Union Bank Recovery and Resolution Directive (BRRD), 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 TCE of 3% and post-failure losses of 8% of tangible banking assets, a 25% runoff in junior wholesale deposits and 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 continues to indicate a very low loss given failure, leading to two notches of rating uplift from the bank's baa1 Adjusted BCA. This reflects our expectation that Erste will continue to issue debt volumes subordinated to senior unsecured (preferred) debt and (junior) deposit holders in line with its medium-term funding plan, and will be able to maintain continued access to the capital markets.

For Erste's junior senior unsecured debt, our Advanced LGF analysis indicates a moderate loss given failure, leading to a positioning of the ratings in-line with its baa1 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. Without any government support uplift, Erste's subordinated debt is rated Baa2, one notch below the bank's baa1 Adjusted BCA.

#### Additional Tier 1 (AT1) instruments

We assign a (P)Ba1 rating to Erste's AT1 note programme and a Ba1(hyb) rating to the three €500 million AT1 notes issued under the programme, three notches below the bank's baa1 Adjusted BCA. The ratings reflect our assessment of the instruments' deeply subordinated claim in liquidation, and their non-cumulative coupon deferral features. In addition, the securities' principals are 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 Austrian government. 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[10].

### Counterparty Risk Ratings (CRRs)

CRRs are opinions of the ability of entities to honour the uncollateralised portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honoured. CRR are distinct from ratings assigned to senior unsecured debt instruments and from issuer ratings because they reflect that, in a resolution, CRR liabilities might benefit from preferential treatment compared with senior unsecured debt. Examples of CRR liabilities include the uncollateralised portion of payables arising from derivatives transactions and the uncollateralised portion of liabilities under sale and repurchase agreements.

#### Erste's CRRs are positioned at A1/P-1

The CRR is positioned three notches above the baa1 Adjusted BCA, reflecting the extremely low loss given failure from the high volume of instruments, primarily senior unsecured and subordinated debt instruments, which are subordinated to CRR liabilities in our Advanced LGF analysis.

### Counterparty Risk (CR) Assessment

The 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 (for example, swaps), letters of credit, guarantees and liquidity facilities.

**Erste's CR Assessment is A1(cr)/P-1(cr)**

The bank's CR Assessment is positioned three notches above the bank's baa1 Adjusted BCA, based on the substantial buffer 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 is the Banks methodology, published in November 2019.

### About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form in our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement 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 9
**Erste Group Bank AG**

| Macro Factors | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Weighted Macro Profile** | **Strong** | **100%** | | | | | |
| | | | | | | | |
| **Factor** | | **Historic Ratio** | **Initial Score** | **Expected Trend** | **Assigned Score** | **Key driver #1** | **Key driver #2** |
| Solvency | | | | | | | |
| Asset Risk | | | | | | | |
| Problem Loans / Gross Loans | | 3.7% | baa1 | ←→ | baa2 | Quality of assets | Geographical concentration |
| Capital | | | | | | | |
| Tangible Common Equity / Risk Weighted Assets (Basel III - fully loaded) | | 10.2% | baa3 | ←→ | baa1 | Risk-weighted capitalisation | Capital fungibility |
| Profitability | | | | | | | |
| Net Income / Tangible Assets | | 0.8% | baa2 | ↓ | baa3 | Return on assets | Expected trend |
| Combined Solvency Score | | | baa2 | | baa2 | | |
| Liquidity | | | | | | | |
| Funding Structure | | | | | | | |
| Market Funds / Tangible Banking Assets | | 16.4% | baa1 | ←→ | a3 | Extent of market funding reliance | Deposit quality |
| Liquid Resources | | | | | | | |
| Liquid Banking Assets / Tangible Banking Assets | | 30.5% | a3 | ←→ | baa1 | Stock of liquid assets | Asset encumbrance |
| Combined Liquidity Score | | | baa1 | | a3 | | |
| Financial Profile | | | | | baa1 | | |
| Qualitative Adjustments | | | | | Adjustment | | |
| Business Diversification | | | | | 0 | | |
| Opacity and Complexity | | | | | 0 | | |
| Corporate Behavior | | | | | 0 | | |
| Total Qualitative Adjustments | | | | | 0 | | |
| Sovereign or Affiliate constraint | | | | | Aa1 | | |
| BCA Scorecard-indicated Outcome - Range | | | | | a3 - baa2 | | |
| Assigned BCA | | | | | baa1 | | |
| Affiliate Support notching | | | | | 0 | | |
| Adjusted BCA | | | | | baa1 | | |

| **Balance Sheet** | **in-scope (EUR Million)** | **% in-scope** | **at-failure (EUR Million)** | **% at-failure** |
|---|---|---|---|---|
| Other liabilities | 45,051 | 28.3% | 55,347 | 34.7% |
| Deposits | 90,562 | 56.8% | 80,877 | 50.7% |
| Preferred deposits | 67,016 | 42.1% | 63,315 | 39.7% |
| Junior deposits | 23,546 | 14.8% | 17,562 | 11.0% |
| Senior unsecured bank debt | 10,482 | 6.6% | 10,370 | 6.5% |
| Junior senior unsecured bank debt | 500 | 0.3% | 500 | 0.3% |
| Dated subordinated bank debt | 6,491 | 4.1% | 5,983 | 3.8% |
| Junior subordinated bank debt | | | 20 | 0.0% |
| Preference shares (bank) | 1,500 | 0.9% | 1,490 | 0.9% |
| Equity | 4,781 | 3.0% | 4,781 | 3.0% |
| Total Tangible Banking Assets | 159,368 | 100.0% | 159,368 | 100.0% |

| 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 Rating | 25.5% | 25.5% | 25.5% | 25.5% | 3 | 3 | 3 | 3 | 0 | a1 |
| Counterparty Risk Assessment | 25.5% | 25.5% | 25.5% | 25.5% | 3 | 3 | 3 | 3 | 0 | a1 (cr) |
| Deposits | 25.5% | 8.0% | 25.5% | 14.5% | 3 | 3 | 3 | 2 | 0 | a2 |
| Senior unsecured bank debt | 25.5% | 8.0% | 14.5% | 8.0% | 3 | 2 | 3 | 2 | 0 | a2 |
| Junior senior unsecured bank debt | 8.0% | 7.7% | 8.0% | 7.7% | 0 | 0 | 0 | 0 | 0 | baa1 |
| Dated subordinated bank debt | 7.7% | 3.9% | 7.7% | 3.9% | -1 | -1 | -1 | -1 | 0 | baa2 |
| Non-cumulative bank preference shares | 3.9% | 3.0% | 3.9% | 3.0% | -1 | -1 | -1 | -1 | -2 | ba1 |

| Instrument Class | Loss Given Failure notching | Additional notching | Preliminary Rating Assessment | Government Support notching | Local Currency Rating | Foreign Currency Rating |
|---|---|---|---|---|---|---|
| Counterparty Risk Rating | 3 | 0 | a1 | 0 | A1 | A1 |
| Counterparty Risk Assessment | 3 | 0 | a1 (cr) | 0 | A1(cr) | |
| Deposits | 2 | 0 | a2 | 0 | A2 | A2 |
| Senior unsecured bank debt | 2 | 0 | a2 | 0 | A2 | A2 |
| Junior senior unsecured bank debt | 0 | 0 | baa1 | 0 | Baa1 | |
| Dated subordinated bank debt | -1 | 0 | baa2 | 0 | Baa2 | Baa2 |
| Non-cumulative bank preference shares | -1 | -2 | ba1 | 0 | Ba1 (hyb) | |

[1]Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
*Source: Moody's Investors Service*

## Ratings

Exhibit 10

| Category | Moody's Rating |
|---|---|
| **ERSTE GROUP BANK AG** | |
| Outlook | Positive |
| Counterparty Risk Rating | A1/P-1 |
| Bank Deposits | A2/P-1 |
| Baseline Credit Assessment | baa1 |
| Adjusted Baseline Credit Assessment | baa1 |
| Counterparty Risk Assessment | A1(cr)/P-1(cr) |
| Senior Unsecured | A2 |
| Junior Senior Unsecured -Dom Curr | Baa1 |
| Junior Senior Unsecured MTN -Dom Curr | (P)Baa1 |
| Senior Subordinate -Dom Curr | Baa2 |
| Pref. Stock Non-cumulative -Dom Curr | Ba1 (hyb) |
| Commercial Paper -Dom Curr | P-1 |
| Other Short Term -Dom Curr | (P)P-1 |
| **BANCA COMERCIALA ROMANA S.A.** | |
| Outlook | Stable(m) |
| Counterparty Risk Rating | Baa1/P-2 |
| Bank Deposits -Fgn Curr | Baa3/P-3 |
| Bank Deposits -Dom Curr | Baa2/P-2 |
| Baseline Credit Assessment | ba3 |
| Adjusted Baseline Credit Assessment | ba1 |
| Counterparty Risk Assessment | Baa2(cr)/P-2(cr) |
| **CESKA SPORITELNA, A.S.** | |
| Outlook | Stable |
| Counterparty Risk Rating | Aa3/P-1 |
| Bank Deposits | A1/P-1 |
| Baseline Credit Assessment | a3 |
| Adjusted Baseline Credit Assessment | a3 |
| Counterparty Risk Assessment | Aa3(cr)/P-1(cr) |
| **ERSTE BANK HUNGARY ZRT.** | |
| Outlook | Stable |
| Counterparty Risk Rating | Baa1/P-2 |
| Bank Deposits -Fgn Curr | Baa3/P-3 |
| Bank Deposits -Dom Curr | Baa1/P-2 |
| Baseline Credit Assessment | ba2 |
| Adjusted Baseline Credit Assessment | baa3 |
| Counterparty Risk Assessment | Baa2(cr)/P-2(cr) |
| **ERSTE BANK, NEW YORK** | |
| Outlook | Positive |
| Counterparty Risk Rating | A1/P-1 |
| Bank Deposits | A2/-- |
| Counterparty Risk Assessment | A1(cr)/P-1(cr) |
| **ERSTE FINANCE (DELAWARE) LLC** | |
| Bkd Commercial Paper | P-1 |
| **SLOVENSKA SPORITELNA, A.S.** | |
| Outlook | Stable |
| Counterparty Risk Rating -Dom Curr | A1/P-1 |
| Bank Deposits | A2/P-1 |
| Baseline Credit Assessment | baa2 |
| Adjusted Baseline Credit Assessment | baa1 |
| Counterparty Risk Assessment | A1(cr)/P-1(cr) |
| Issuer Rating | A2 |

*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 Around half of Erste's loan book is exposed to the more dynamic Central and Eastern European (CEE) economies.

3 MREL (Minimum Requirement for Own Funds & Eligible Liabilities) is the EU standard for 'bail-in' capital, introduced via the 2014 Bank Recovery and Resolution Directive (BRRD).

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

5 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 institutional protection scheme 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. The Austrian regulator has taken account of the value of these capital contributions to Erste by allowing the bank to report its CET1 capital on a consolidated basis without any reduction in its domestic minority shares, that is, the capital held by the savings banks.

6 These improvements took into account the Austrian regulator's recommendation that Austria'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.

7 Environmental risks can be defined as environmental hazards encompassing the impacts of air pollution, soil/water pollution, water shortages and natural and man-made hazards (physical risks). Additionally, regulatory or policy risks, like the impact of carbon regulation or other regulatory restrictions, including the related transition risks like policy, legal, technology and market shifts, that could impair the evaluation of assets are an important factor. Certain banks could face a higher risk from concentrated lending to individual sectors or operations exposed to the aforementioned risks.

8 Social risk considerations represent a broad spectrum, including customer relations, human capital, demographic and societal trends, health and safety and responsible production. The most relevant social risks for banks arise from the way they interact with their customers. Social risks are particularly high in the area of data security and customer privacy, which is partly mitigated by sizeable technology investments and banks' long track record of handling sensitive client data. Fines and reputational damage because of product mis-selling or other types of misconduct is a further social risk. Societal trends are also relevant in a number of areas, such as shifting customer preferences toward digital banking services increasing information technology costs, ageing population concerns in several countries affecting demand for financial services or socially driven policy agendas that may translate into regulations that affect banks' revenue bases.

9 Corporate governance is a well-established key driver for banks and related risks are typically included in our evaluation of the banks' financial profile. Further factors like specific corporate behaviour, key person risk, insider and related-party risk, strategy and management risk factors and dividend policy may be captured in individual adjustments to the BCA, if deemed applicable. Corporate governance weaknesses can lead to a deterioration in a company's credit quality, while governance strengths can benefit its credit profile. When credit quality deteriorates due to poor governance, such as break-down in controls resulting in financial misconduct, it can take a long time to recover. Governance risks are also largely internal rather than externally driven.

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

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Contributors

Hannah Dimpker
*Associate Analyst*


CLIENT SERVICES

| | |
|---|---|
| Americas | 1-212-553-1653 |
| Asia Pacific | 852-3551-3077 |
| Japan | 81-3-5408-4100 |
| EMEA | 44-20-7772-5454 |

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