

Rating Action: Moody's affirms Erste Group Bank AG's A2 debt and deposit ratings, changes outlook to stable from positive

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Frankfurt am Main, October 29, 2020 -- Moody's Investors Service (Moody's) today affirmed Erste Group Bank AG's (Erste) ratings, including the bank's A2 long-term deposit and senior unsecured debt ratings. The rating agency changed the outlook on the long-term debt and deposit ratings to stable from positive. Concurrently, the rating agency affirmed Erste's baa1 Baseline Credit Assessment (BCA) and Adjusted BCA.

Please click on this link https://www.moody's.com/viewresearchdoc.aspx?docid=PBC_ARFTL435040 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

RATINGS RATIONALE

-- AFFIRMATION OF THE BCA AND ADJUSTED BCA

The affirmation of the bank's baa1 BCA considers Erste's low and declining dependence on confidence-sensitive wholesale market funding and its strong deposit franchise visible in leading market shares in most countries it operates in. It also reflects the bank's solid capitalization, which provides a good cushion in an adverse economic environment, as well as its still strong asset quality and liquidity metrics. The affirmation further takes account of the rating agency's expectation of Erste's medium term profitability, which should continue to provide the bank with a buffer to absorb substantial loss provisions without impairing its capital position. However, challenges for profitability from the lower for longer rates environment will intensify.

In its assessment, the rating agency also reflects Erste's inherent exposure to more volatile markets in Central and Eastern Europe (CEE). While Erste reported lower credit losses from these regions until recently, the weakened macroeconomic environment challenges Erste in maintaining its sound asset quality and below-average loan loss charges, which the bank exhibited in recent years.

-- AFFIRMATION OF RATINGS, INCLUDING SENIOR UNSECURED DEBT AND DEPOSIT RATINGS

The affirmation of Erste's ratings, including its A2 long-term deposit and senior unsecured debt ratings, reflects the affirmation of the bank's BCA and Adjusted BCA combined with Moody's assessment of the forward-looking development of the bank's liability structure, which results in an unchanged rating uplift from the rating agency's Advanced Loss Given Failure (LGF) analysis.

For the deposit and senior unsecured debt instruments, Moody's expects that Erste will manage its liability structure in a way that it remains in line with the level required for two notches of uplift from the Advanced LGF analysis, also taking into account regulatory requirements such as the minimum requirement for own funds and eligible liabilities (MREL), affecting Erste's domestic and CEE funding needs.

Erste is a group with a so-called Multiple Point of Entry under a potential bail-in scenario, implying that MREL requirements are to be met at the different bail-in groups and over time leading to a partial shift of funding activities for instruments ranking below senior unsecured debt from the Austrian resolution group to the subsidiaries in CEE. This will reduce the likelihood for higher uplift from our Advanced LGF analysis going forward.

-- OUTLOOK CHANGE TO STABLE FROM POSITIVE

The stable outlook on Erste's long-term deposit and senior unsecured debt ratings reflects Moody's expectation that Erste's future issuance of debt instruments designated to absorb losses in resolution, such as junior senior unsecured and subordinated debt, will not sustainably reach a level that reduces the current loss given failure for senior creditors further. Rather, the liability structure will continue to result a very low loss given failure from the Advanced LGF analysis and two notches of rating uplift. Further, the stable outlook incorporates the rating agency's expectation of a stable fundamental credit profile.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Erste's ratings could be upgraded because of an upgrade of its BCA, which could be prompted by a joint strong and sustained improvement of at least several solvency profile and liquidity profile factors.

Upward rating pressure could also materialise if the bank, and on a sustained basis, increased the amount of instruments designated to absorb losses in resolution relative to its total balance sheet, which could result in additional rating uplift from Moody's Advanced LGF analysis.

Downward pressure could be exerted on Erste's ratings as a result of a downgrade of its baa1 BCA or a significant decrease in its bail-in-able debt volume outstanding, possibly leading to fewer notches of rating uplift as a result of Moody's Advanced LGF analysis.

Downward pressure on Erste's baa1 BCA could be triggered by an erosion of asset quality beyond Moody's current expectations, in particular if it also impacts Erste's capitalization or the bank's profitability on a sustained basis. Further, a sustainable reduction of its liquid resources in combination with a marked increase in market funding reliance could put pressure on the bank's BCA.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in November 2019 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1147865. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

The List of Affected Credit Ratings announced here are a mix of solicited and unsolicited credit ratings. Additionally, the List of Affected Credit Ratings includes additional disclosures that vary with regard to some of the ratings. Please click on this link https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_ARFTL435040 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and provides, for each of the credit ratings covered, Moody's disclosures on the following items:

- Endorsement
- Rating Solicitation
- Issuer Participation
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- Participation: Access to Internal Documents
- Disclosure to Rated Entity
- Lead Analyst
- Releasing Office

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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