

## CREDIT OPINION

28 July 2021

Update

 Rate this Research

### 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	Stable
Long Term Deposit	A2
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

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 after upgrade of subordinated ratings

#### Summary

On 13 July 2021, we upgraded [Erste Group Bank AG's](#) (Erste) subordinated debt ratings by one notch to Baa1, reflecting the benefits from the change in the notching guidance for our Advanced Loss Given Failure Analysis (LGF<sup>1</sup>). We further assign A2(stable) senior unsecured debt and A2(stable)/P-1 deposit ratings to Erste as well as a baa1 Baseline Credit Assessment (BCA) and Adjusted BCA and A1 Counterparty Risk Ratings.

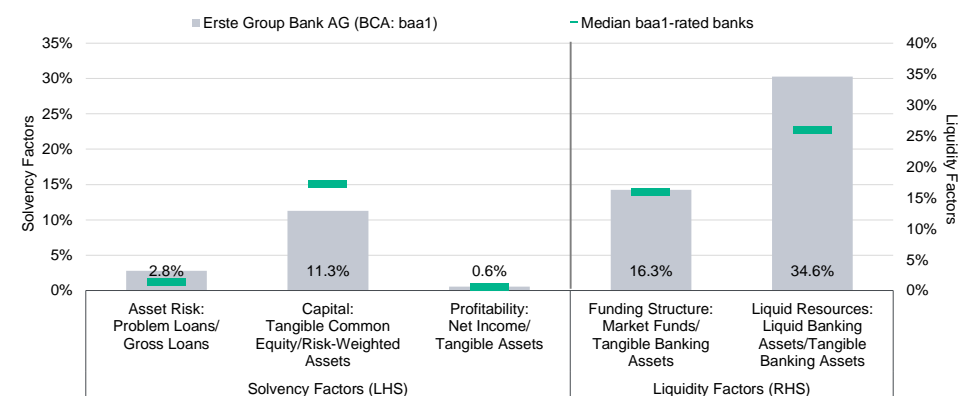
Erste's A2 deposit and senior unsecured debt ratings reflect the bank's baa1 Adjusted BCA, and the result of our Advanced LGF analysis, indicating a very low loss-given-failure and results in two notches of rating uplift. Erste's ratings do not benefit from government support uplift due to the wider scope of BRRD application in Austria and evidenced willingness of its government to apply burden-sharing to creditors.

Erste's baa1 BCA reflects the bank's low dependence on confidence-sensitive wholesale market funding and its strong deposit franchise with leading market shares in most countries it operates in. It also reflects the bank's solid capitalisation, which provides a good buffer in an adverse economic environment, as well as its still-strong asset quality and liquidity metrics and our view on its medium-term profitability, which should continue to provide the bank with a buffer to absorb substantial loss provisions without impairing its capital position.

Exhibit 1

#### Rating Scorecard - Key financial ratios

##### Erste Group Bank AG



Our definition of tangible common equity (TCE) excludes the domestic minority shares that are recognised as part of the regulatory capital.

Data is as of Q1 2021. Asset risk and profitability show the three-year averages for Erste. Liquidity factors data is as of year-end 2020.

Sources: Company reports and Moody's Investors Service

## Credit strengths

- » Deposit-rich funding profile, with only a moderate reliance on wholesale funding combined with a strong buffer of liquid assets
- » Solid capitalisation levels
- » Sound earnings generation capacity, which provides capacity to absorb credit losses without impairing the bank's capital position

## Credit challenges

- » Defending its asset quality in a more adverse market environment such as the one created by the pandemic 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 amid rising regulatory requirements and sustained business growth

## Outlook

The stable rating outlook reflects our expectation that the liability structure will continue to result in a very low loss given failure from the Advanced LGF analysis and two notches of rating uplift, and incorporates our expectation of a stable fundamental credit profile.

## Factors that could lead to an upgrade

- » 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, 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 our Advanced LGF analysis.

## Factors that could lead to a downgrade

- » 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 our Advanced LGF analysis.
- » Downward pressure on Erste's baa1 BCA could be triggered by an erosion of asset quality beyond our current expectations, in particular if it also affects the bank's capitalisation or profitability on a sustained basis. Furthermore, a sustainable reduction in its liquid resources in combination with a marked increase in market funding reliance could strain the bank's BCA.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

## Key indicators

Exhibit 2

### Erste Group Bank AG (Consolidated Financials) [1]

	03-21 <sup>2</sup>	12-20 <sup>2</sup>	12-19 <sup>2</sup>	12-18 <sup>2</sup>	12-17 <sup>2</sup>	CAGR/Avg. <sup>3</sup>
Total Assets (EUR Billion)	303.1	274.3	243.0	233.7	216.6	10.9 <sup>4</sup>
Total Assets (USD Billion)	356.2	335.6	272.7	267.1	260.0	10.2 <sup>4</sup>
Tangible Common Equity (EUR Billion)	13.7	13.4	13.0	12.2	11.0	6.8 <sup>4</sup>
Tangible Common Equity (USD Billion)	16.0	16.3	14.6	13.9	13.3	6.1 <sup>4</sup>
Problem Loans / Gross Loans (%)	2.7	2.7	2.6	3.2	4.0	3.0 <sup>5</sup>
Tangible Common Equity / Risk Weighted Assets (%)	11.3	11.1	11.0	10.5	9.9	10.8 <sup>6</sup>
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	25.8	26.6	25.9	30.6	38.5	29.5 <sup>5</sup>
Net Interest Margin (%)	1.6	1.8	2.0	2.0	2.0	1.9 <sup>5</sup>
PPI / Average RWA (%)	1.9	2.1	2.3	2.0	2.2	2.1 <sup>6</sup>
Net Income / Tangible Assets (%)	0.6	0.3	0.9	0.9	0.8	0.7 <sup>5</sup>
Cost / Income Ratio (%)	68.4	63.7	62.6	65.1	64.9	65.0 <sup>5</sup>
Market Funds / Tangible Banking Assets (%)	19.1	16.3	13.2	15.9	15.7	16.0 <sup>5</sup>
Liquid Banking Assets / Tangible Banking Assets (%)	39.9	34.6	28.3	30.5	31.6	33.0 <sup>5</sup>
Gross Loans / Due to Customers (%)	82.6	88.0	93.3	93.1	95.1	90.4 <sup>5</sup>

[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 because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

Sources: Moody's Investors Service and company filings

## Profile

Erste is the largest bank in [Austria](#) (Aa1 stable) by total assets and one of the largest financial service providers in the Central and Eastern Europe (CEE) region in terms of clients and total assets. The group serves more than 16 million customers through around 2,200 branches in Austria and the eastern parts of the European Union (EU) with 45,690 employees as of December 2020.

The group focuses on private individuals and small and medium-sized enterprises (SMEs); offers advisory services and support to corporate clients for financing and investment; and gives access to international capital markets, public-sector funding and interbank market operations. As of year-end 2020, Erste reported a consolidated asset base of €277 billion. In 2020, 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 54% of the bank's exposures as of December 2020. However, because of its exposures to jurisdictions with lower Macro Profiles (primarily the CEE economies) through its foreign subsidiaries, the overall asset-weighted Macro Profile of the bank is Strong, one notch below [Austria's Strong+ Macro Profile](#).

## Recent developments

All G-20 countries, including Austria, experienced severe output losses in 2020, but the contraction in some economies is sharper than in others. We expect the pace of improvement to be asymmetric across countries. The recovery path is uncertain and will remain highly dependent on the development and distribution of a vaccine, effective pandemic management and government policy support.

Our baseline forecasts assume that the difficulty in controlling the spread of the coronavirus will hinder the gradual process of recovery in the short term. However, over time, we expect better pandemic management and the availability of an effective vaccine or treatments to reduce the importance of the virus as a macroeconomic variable. The pandemic-induced shock has triggered extraordinary fiscal policy responses from governments in advanced economies, including the US, Europe and Japan, facilitated by a large expansion of their central bank asset purchase programmes.

The European Central Bank (ECB) introduced a series of measures to help the EU economies weather the widening effects of the pandemic, temporarily increasing banks' liquidity provisions, as well as lowering regulatory capital and liquidity requirements. As part of these temporary measures, the ECB increased its targeted longer-term refinancing operations (TLTRO III) under more favourable terms, as well as its financial asset purchase programme, while refraining from lowering the ultralow interest rates further. Overall, the

package aims to help banks continue to finance corporates and SMEs suffering from the effects of the pandemic. The ECB's measures will provide limited relief for banks and their borrowers, and it will require continued significant fiscal policy measures by the EU and its member states to avert higher default rates in banks' lending books.

Austria implemented a large stimulus package that complements the ECB's supportive policy actions. The Austrian government launched emergency corporate lending guarantee programmes and expanded short-time work subsidies. The measures add to automatic stabilisers that support household incomes when unemployment increases. These policy measures will soften the negative economic effects of the pandemic, but might not fully mitigate the credit-negative operational effects that all the G-20 countries have sustained.

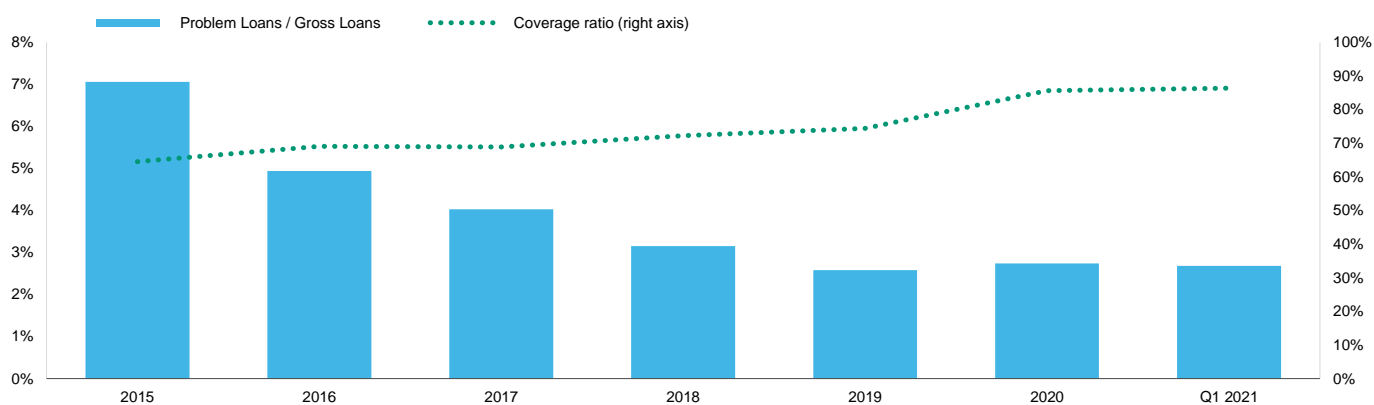
## Detailed credit considerations

### Positive trend in asset quality to reverse

The baa2 Asset Risk score assigned to Erste is two notches below the a3 initial score, taking into account the sensitivity of Erste's CEE exposures to downturns in macroeconomic conditions and the group's stronger loan growth until 2020, largely derived from the CEE region. We expect Erste's problem loan ratio to start deteriorating because of the economic downswing from its low levels (Q1 2021: 2.7%), with the bank's significantly increased level of loan loss provisions of more than 85% as of Q1 2021 providing a good buffer against potential credit losses.

Exhibit 3

### Erste has significantly lowered its problem loan exposures and increased provisioning to bolster the impact of the crisis Nonperforming loan stock developments and coverage, from 2014 to Q1 2021

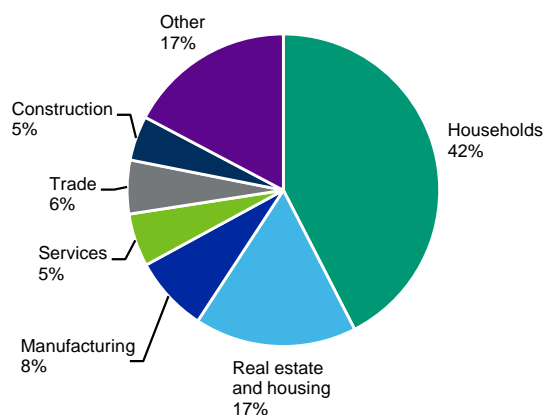


Sources: Company reports and Moody's Investors Service

Erste's exposure is focused in its home market of Austria (around 50% of total gross customer loans as of March 2021) and continues to display a high exposure to the CEE economies, a clear differentiating factor compared 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) and [Slovakia](#) (A2 stable). The group's loan book is well diversified, with a clear focus on retail lending (predominantly mortgages), amounting to around 50% of its loan book. The remainder of the bank's loan book largely consists of corporate loans focused on SMEs in Austria and CEE.

Exhibit 4

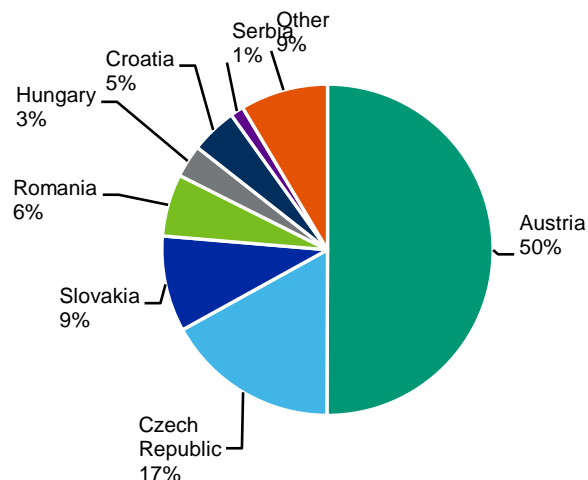
#### Erste Group's loan book by sector As of Q1 2021



Sources: Company reports and Moody's Investors Service

Exhibit 5

#### Erste Group's regional loan exposures As of Q1 2021



Sources: Company reports and Moody's Investors Service

Erste reported a problem loan ratio of 2.7% as of March 2021. The bank's coverage ratio, which excludes all non-cash collateral, improved to 86.4% as of the same date from 77.1% as of 31 December 2019 (2018: 73.4%). These levels are 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. Doing so will help the bank avoid undue new problem loan formation, particularly in the current, highly uncertain economic environment.

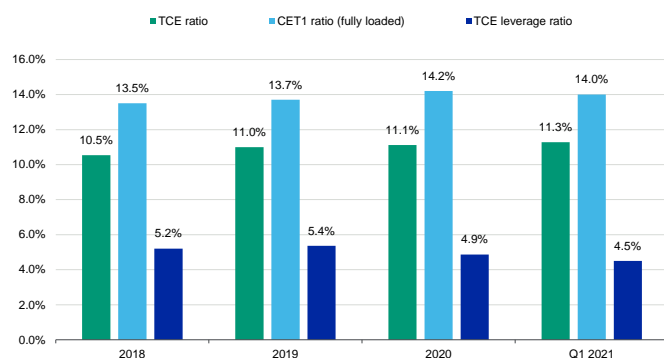
#### Business growth, regulatory tightening and the economic downswing make it difficult for Erste to retain its capital buffers

Erste's baa1 Capital score is positioned one notch above its baa2 initial score. This positive adjustment captures additional capital resources not reflected in our initial calculation of the bank's tangible common equity (TCE) ratio as of Q1 2021 (11.3%). 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<sup>2</sup>. 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 calculation.

With a reported Common Equity Tier 1 (CET1) capital ratio of 14.0% as of March 2021, Erste's capital is 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, which displays a Basel III leverage ratio of 6.2% as of Q1 2021 and a TCE leverage ratio of around 4.5% (see 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 basis points [bps], effective since the beginning of 2019) and the expected minimum CET1 ratio requirement of slightly above 10% in 2021 (10.16%, excluding the expected Pillar 2 guidance) set by the ECB as part of the bank's Supervisory Review and Evaluation Process (SREP) requirements (see Exhibit 6).

Exhibit 6

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

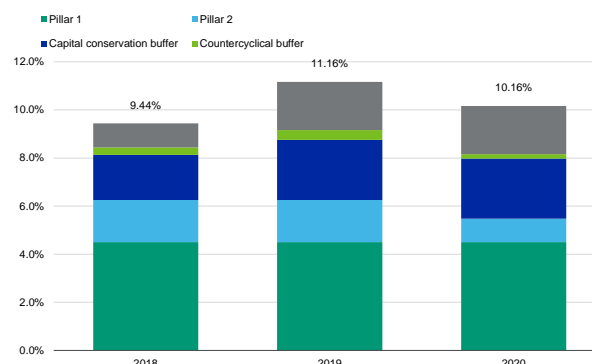


The chart displays TCE ratios as computed by Moody's. TCE = Tangible common equity. CET1 = Common Equity Tier 1.

Sources: Company reports and Moody's Investors Service

Exhibit 7

### Erste's SREP CET1 requirements in detail



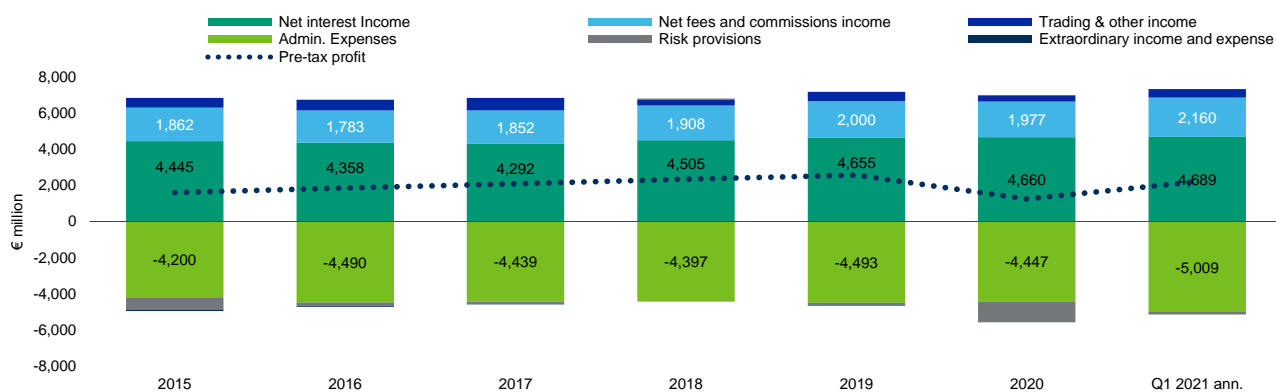
The exhibit displays the fully loaded SREP requirements for 2019 and 2020, transitional for 2018. Excludes the Pillar 2 CET1 guidance. Requirements including pandemic-related measures: 10.16% excluding P2 guidance, 14.43% for total capital on a fully loaded basis. Sources: Company reports and Moody's Investors Service

## Solid operational earnings challenged by higher risk costs and the continued strain from the persistently low interest rate environment

The baa3 Profitability score assigned to Erste, in line with the initial score, reflects our view of a sustainable recovery in the bank's profitability in 2021, after a dip in 2020 when Erste booked significant provisions of 78 bps, and our expectation of the credit cycle. The bank's solid operational profitability provides it with a good buffer to deal with higher risk costs, without impairing its capital position. We expect it to remain within the baa3 Profitability score range for the group's Strong Macro Profile (net income/tangible banking assets [TBA] of 0.5%-0.75%, 2017-20: average 0.71%), despite volatility and uncertainty in the operating environment.

Exhibit 8

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



Sources: Company reports and Moody's Investors Service

Because Erste's revenue is primarily generated from net interest income (around two-thirds of total revenue), the challenge for the bank will be to mitigate the strain on its net interest income stemming from the constant repricing of loans and liquid financial investments to lower for longer rates in Erste's euro area countries.

For Q1 2021, the bank reported a net profit of €355 million, up 51% from Q1 2020. Although net interest income declined by almost 5% to €1.2 billion, reflecting the low interest rate environment and more limited loan demand, particularly for higher-yielding consumer and corporate loans, the increase in fee and commission income, a better trading and fair value result, combined with strict

cost discipline, supported profitability. The operating result was up by almost 32%, at €725 million. Lower risk costs of €36 million (down from €62 million the year before) supported the recovery in profitability.

In 2020, Erste reported a net profit of €783 million, down 47%, driven by significantly higher loan loss provisions of €1,125 million (or 67 bps of gross loans, from 7 bps for 2019), expecting increasing risk costs, and a lower result for trading and the fair value for financial instruments of €200 million (down from €294 million as of year-end 2019). Otherwise, the underlying trend in operating profitability remained stable, with a net interest income of €4.7 billion (year-end 2019: €4.7 billion) and a fee and commission income of €1,977 million (year-end 2019: €2,000 million).

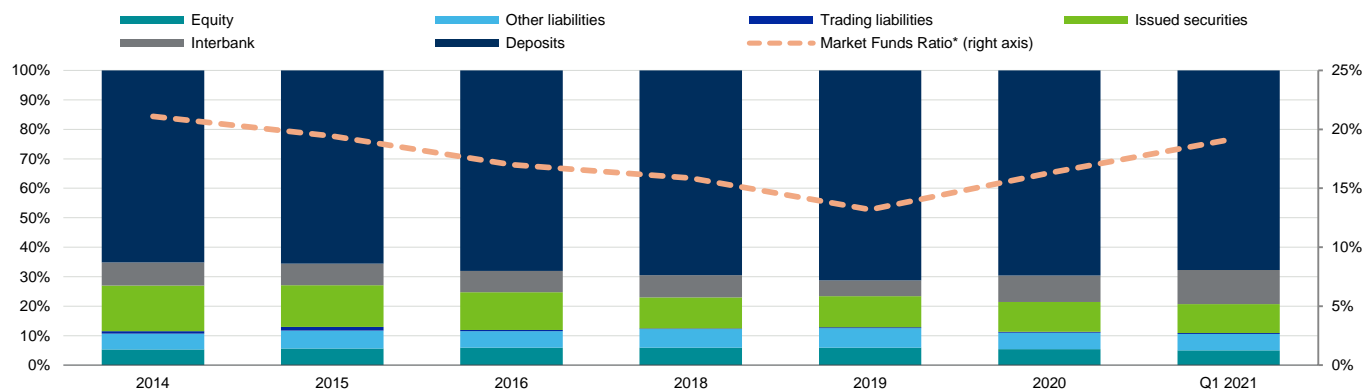
### Deposit-rich funding profile, with only a moderate and declining reliance on wholesale funding

Erste's a2 Funding Structure score, two notches above the initial baa1 score, reflects the bank's balanced funding profile, characterised by its limited wholesale funding dependence and the high granularity of its deposit base, with a leading market share in many jurisdictions. The assigned score further reflects the bank's temporary recourse to the ECB's TLTRO, reflecting the deduction of a portion of the TLTRO III borrowed funds that are used to take advantage of favorable terms offered by the ECB and depositing back at the central bank rather than for being used for lending and/or investment purposes, thereby temporarily inflating Erste's balance sheet.

Erste benefits from its access to a broad and diversified base of customer deposits, largely obtained from retail and SMEs, contributing around 75% of the bank's total funding as of year-end 2020. 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 of around 20%) support the gathering of additional low-cost deposits. Therefore, the bank's funding structure remains a relative strength, and the sustained loan-to-deposit ratio below 100% over the past few years benefited from continued strong deposit inflow (2020: 86.9%, 2019: 92.2% and 2018: 91.8%).

Exhibit 9

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



\*Market funds ratio = Market funds/TBA.

Sources: Company reports and Moody's Investors Service

Market funding increased in 2020 and Q1 2021, driven by Erste's recourse to the ECB's TLTRO, a temporary and opportunistic use of the provided option. A stable proportion of Erste's funding was raised through senior unsecured, junior senior and subordinated debt securities (€15.6 billion as of December 2020), with the remainder largely consisting of a relatively higher portion of covered bonds (€13.0 billion). We estimate that the bank's annual long-term refinancing needs will be in the €2 billion-€3 billion range for the next two to three years, a very low figure compared with the bank's balance-sheet size of €277 billion as of year-end 2020. In addition, the bank's market funding profile benefits from an average debt maturity of around eight years.

Within Erste's larger CEE franchises, the bank's loan-to-deposit ratio is below 100% and there is 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<sup>3</sup>. However, depending on the details of the final minimum requirement for own funds and eligible liabilities

requirements, the market funding ratio may somewhat increase because of additional funding needs within Erste's CEE franchises in the coming years.

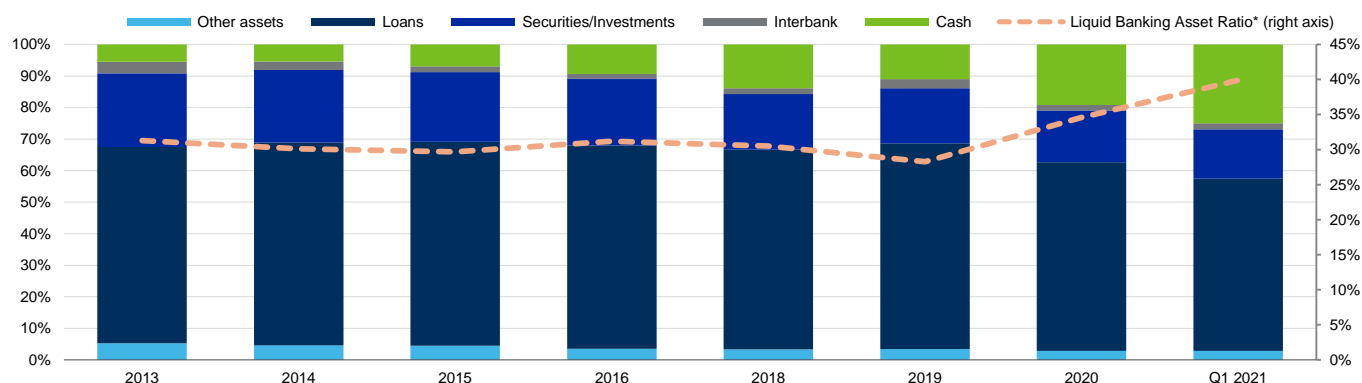
### Highly liquid balance sheet mitigates potential funding market dislocations

We assign a baa1 Liquid Resources score to Erste, one notch below the a3 initial score, reflecting the bank's liquid assets, which exceed its funding needs significantly, and our expectation that liquidity will return to historical levels after the ECB measures run out. Currently, liquid resources include cash deposits at the ECB, from the TLTRO take-up. We regard Erste's balance-sheet liquidity as comfortable, with liquid banking assets — such as cash and trading and financial assets — equivalent to around 36% of its total balance sheet as of December 2020 (see 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 liquidity is underpinned by its regulatory LCR, which was 189% as of year-end 2020. Moreover, additional liquidity could be generated through the issuance of covered bonds. Erste has a significant additional leeway of around €5 billion for using its existing cover pool to generate fresh liquidity through the issuance of covered bonds, largely stemming from its [mortgage covered bond pool](#).

Exhibit 10

### Erste displays sound balance-sheet liquidity



\*Liquid banking asset ratio = Liquid banking assets/TBA.

Sources: Company reports and Moody's Investors Service

### ESG considerations

The global banking sector has been classified as "Low" risk in our [environmental risk heat map](#)<sup>4</sup> and as "Moderate" risk in our [social risk heat map](#)<sup>5</sup>. Erste's exposure to environmental and social risks is in line with our general assessment for the global banking industry.

Erste's investment portfolio is well diversified by industry and, although geographically concentrated in Austria and CEE countries, is not considered 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 Croatia or the Romanian court ruling on building society loans). Erste has been proactively approaching customers, regulators and other stakeholders to make 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, mainly because of the high diversification of its business model across countries and its proven swift reaction to sudden policy or law changes.

Governance<sup>6</sup> is highly relevant for Erste, as it is to all banks, but more specifically because of the complexity of its multicountry 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 because of the stability of its CEE-oriented strategy and constant execution over the past 20 years. Nonetheless, corporate governance remains a key credit consideration and needs ongoing monitoring.



## Support and structural considerations

### Government support considerations

We do not include government support in 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 EU Bank Recovery and Resolution Directive (BRRD) implementation in Austria and its application, illustrating the Austrian government's willingness to apply burden-sharing to bondholders<sup>7</sup>.

### Loss Given Failure (LGF) analysis

Erste is subject to the EU 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 a residual TCE of 3% and post-failure losses of 8% of TBA, 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.

Furthermore, we have deducted from Erste's tangible banking assets a portion of the funds the group has borrowed from, and re-deposited at the ECB given that we expect they will be running-off over the medium-term. This adjustment results in no change to the outcome of our Advanced LGF analysis.

For Erste's junior senior unsecured and subordinated 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 Tier 1 (AT1) instruments

We assign a (P)Ba1 rating to Erste's AT1 note programme and a Ba1(hyb) rating to the 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 Erste's CET1 ratio falls below 5.125%, the issuer receives public support or 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.

### Counterparty Risk Ratings (CRRs)

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

The CRR is 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

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

The bank's CR Assessment is three notches above its 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. Because the CR Assessment captures the probability of default on certain senior operational obligations, rather than expected loss, we focus purely on subordination and take no account of the volume of the instrument class.

## Methodology and scorecard

### Methodology

The principal methodology used in rating Erste is our [Banks Methodology](#), published in July 2021.

### 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 11

### Erste Group Bank AG

<b>Macro Factors</b>							
<b>Weighted Macro Profile</b>		<b>Strong</b>	<b>100%</b>				
<b>Factor</b>	<b>Historic Ratio</b>	<b>Initial Score</b>	<b>Expected Trend</b>	<b>Assigned Score</b>	<b>Key driver #1</b>	<b>Key driver #2</b>	
Solvency							
Asset Risk							
Problem Loans / Gross Loans	2.8%	a3	↓	baa2	Quality of assets	Expected trend	
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - fully loaded)	11.3%	baa2	↔	baa1	Risk-weighted capitalisation	Capital fungibility	
Profitability							
Net Income / Tangible Assets	0.6%	baa3	↔	baa3	Return on assets	Expected trend	
Combined Solvency Score		baa1		baa2			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	16.3%	baa1	↔	a2	Extent of market funding reliance	Deposit quality	
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	34.6%	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 is not applicable.**

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	-	-	-	-	-	-	-	3	0	a1
Counterparty Risk Assessment	-	-	-	-	-	-	-	3	0	a1 (cr)
Deposits	-	-	-	-	-	-	-	2	0	a2
Senior unsecured bank debt	-	-	-	-	-	-	-	2	0	a2
Junior senior unsecured bank debt	-	-	-	-	-	-	-	0	0	baa1
Dated subordinated bank debt	-	-	-	-	-	-	-	0	0	baa1
Non-cumulative bank preference shares	-	-	-	-	-	-	-	-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 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	0	0	baa1	0	Baa1	Baa1
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 12

Category	Moody's Rating
<b>ERSTE GROUP BANK AG</b>	
Outlook	Stable
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	Baa1
Pref. Stock Non-cumulative -Dom Curr	Ba1 (hyb)
Commercial Paper -Dom Curr	P-1
Other Short Term -Dom Curr	(P)P-1
<b>ERSTE BANK, NEW YORK</b>	
Outlook	Stable
Counterparty Risk Rating	A1/P-1
Bank Deposits	A2/--
Counterparty Risk Assessment	A1(cr)/P-1(cr)
<b>ERSTE FINANCE (DELAWARE) LLC</b>	
Bkd Commercial Paper	P-1

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 The transfer of the amount of own funds is limited to capital elements exceeding the respective member bank's minimum capital requirement. 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 into account 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.
- 3 This improvement took 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 from local capital markets and funding from supranational institutions.
- 4 Environmental risks can be defined as the environmental hazards encompassing the impacts of air pollution, soil/water pollution, water shortages and natural and human-made hazards (physical risks). In addition, regulatory or policy risks, such as the impact of carbon regulation or other regulatory restrictions, including the related transition risks, such as policy, legal, technology and market shifts, that could impair the evaluation of assets are important factors. Certain banks could face a higher risk from concentrated lending to individual sectors or operations exposed to the aforementioned risks.
- 5 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 are 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 are 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.
- 6 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 such as 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 bank's credit quality, while governance strengths can benefit its credit profile. When credit quality deteriorates because of poor governance, such as a breakdown in controls resulting in financial misconduct, it can take a long time to recover. Governance risks are also largely internal rather than externally driven.
- 7 This application has triggered the resolution of [Heta Asset Resolution AG](#).

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