MOODY'S
INVESTORS SERVICE

CREDIT OPINION
6 November 2020

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.

Contacts

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

Erste Group Bank AG

Update after outlook change to stable

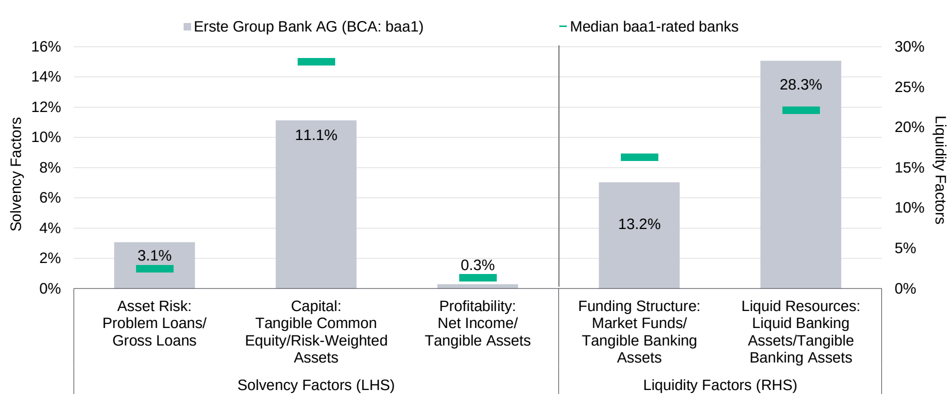
Summary

We changed the outlook on Erste Group Bank AG's (Erste) A2 senior unsecured debt and deposit ratings to stable from positive and affirmed the ratings on 29 October 2020. We also affirmed its baa1 Baseline Credit Assessment (BCA) and Adjusted BCA.

Erste's ratings reflect the bank's baa1 BCA and Adjusted BCA, and the result of our Advanced Loss Given Failure (LGF[1]) analysis, which leads to two notches of uplift for the bank's A2 senior unsecured debt and deposit ratings. We do not incorporate rating uplift from government support due to the evidenced willingness of its government to apply burden-sharing to creditors in Austria.

Erste's baa1 BCA reflects the bank'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 and our view on its medium term profitability, which is should continue to provide the bank with a buffer to absorb substantial loss provisions without impairing its capital position. Our view on Erste's BCA could change if the coronavirus-induced credit shock leads to an erosion of its solvency strengths on a sustained basis.

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 H1 2020. Asset risk and profitability show the three-year averages for Erste. Liquidity factors data is as of year-end 2019.
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 cushion of liquid assets

» Solid capitalisation levels

» Sound earnings generation capacity provides capacity to absorb credit losses without impairing capital position

Credit challenges

» Defending its asset quality in a more adverse market environment such as the coronavirus-induced crisis 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 outlook reflects our expectation that the liability structure will continue to result 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, 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 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 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.

Key indicators

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

	06-20[2]	12-19[2]	12-18[2]	12-17[2]	12-16[2]	CAGR/Avg.[3]
Total Assets (EUR Billion)	262.8	243.0	233.7	216.6	202.8	7.7[4]
Total Assets (USD Billion)	295.1	272.7	267.1	260.0	213.9	9.6[4]
Tangible Common Equity (EUR Billion)	12.8	13.0	12.2	11.0	10.0	7.3[4]
Tangible Common Equity (USD Billion)	14.4	14.6	13.9	13.3	10.6	9.2[4]
Problem Loans / Gross Loans (%)	2.5	2.6	3.2	4.0	4.9	3.4[5]
Tangible Common Equity / Risk Weighted Assets (%)	11.1	11.0	10.5	9.9	9.7	10.4[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	24.9	25.9	30.6	38.5	45.6	33.1[5]
Net Interest Margin (%)	1.9	2.0	2.0	2.0	2.2	2.0[5]
PPI / Average RWA (%)	2.0	2.3	2.0	2.2	2.2	2.1[6]
Net Income / Tangible Assets (%)	0.3	0.9	0.9	0.8	0.7	0.7[5]
Cost / Income Ratio (%)	65.7	62.6	65.1	64.9	66.6	65.0[5]
Market Funds / Tangible Banking Assets (%)	15.6	13.2	15.9	15.7	17.0	15.5[5]
Liquid Banking Assets / Tangible Banking Assets (%)	31.9	28.3	30.5	31.6	31.2	30.7[5]
Gross Loans / Due to Customers (%)	90.7	93.3	93.1	95.1	98.1	94.0[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 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 Group Bank AG (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 nearly 17 million customers through around 2,300 branches in Austria and the eastern parts of the European Union (EU) with 47,560 employees as of 30 June 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 the international capital markets, public-sector funding and interbank market operations. As of 30 June 2020, Erste reported a consolidated asset base of €265 billion. In H1 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 50% of the bank's exposures as of 30 June 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

The global economy continues to slide as the coronavirus pandemic worsens. The full extent of the economic downswing will be unclear for some time. However, G-20 economies will contract by 6.5% in 2020 and the euro area by 9.0%, followed by a gradual recovery in 2021. In Europe, the outbreak adds to late-cycle risks for European banks. The recession in 2020 will weigh on the banks' asset quality and profitability. In the current coronavirus-induced recession and its aftermath, capital levels will be a key differentiator of credit profiles among banks. Generally, banks are facing a sharp deterioration in asset quality and reductions in profitability from the already low levels, while central banks are providing extraordinary levels of liquidity and governments have strong incentives to support banking systems to foster an eventual recovery. Thus, when comparing a bank to its peers, the level of capital with which it entered this recession and its ability to retain capital throughout the next several years are important.

In March 2020, the European Central Bank (ECB) announced a series of measures to help the EU economies weather the widening effects of the coronavirus 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 long-term refinancing operations (TLTRO

III) under more favourable terms, as well as its financial asset purchase programme, while refraining from lowering the ultra-low interest rates further.

The temporary suspension of buffer requirements for regulatory capital and the liquidity coverage ratio (LCR) provides banks greater flexibility and additional leeway to absorb the economic impacts, such as asset-quality declines. Overall, the package aims to help banks continue to finance corporates and SMEs suffering from the effects of the coronavirus outbreak. The ECB's measures will provide limited relief for banks and their borrowers, and that significant fiscal policy measures by the EU and its member states will be required to avert higher default rates in banks' lending books.

Austria announced a large stimulus package that complements the ECB's supportive policy actions. The Austrian government launched emergency corporate lending guarantee programs 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 of the coronavirus pandemic.

For the third quarter 2020, Erste reported a net profit of €343 million, up from €58 million for Q2 2020, with lower risk costs being the key driver (down at €195 million, from €614 million in the previous quarter), while net interest income remained stable at €1.2 billion, as well as the operating result at €0.8 billion. As non performing loans were unchanged at 2.4% of gross loans, the loan loss coverage improved further, to almost 96%, together with the bank's operating profitability a significant buffer for the expected impact of the economic downturn. Further, the bank's common equity tier 1 (CET1) ratio rose of 14.1% remained almost unchanged.

Detailed credit considerations

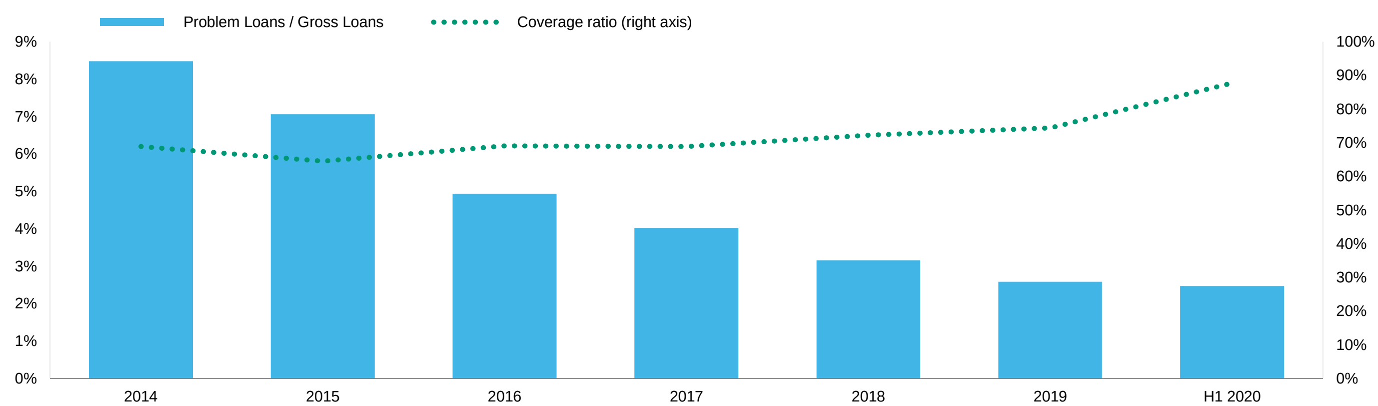
Positive trend in asset quality to reverse

The baa2 Asset Risk score assigned to Erste is one notch below the baa1 initial score, taking 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 the CEE region (annual gross loan growth of 5.5% as of 30 June 2020). We expect Erste's problem loan ratio to start deteriorating on the back of the economic downswing from its low levels (H1 2020: 2.4%).

Exhibit 3

Erste has significantly lowered its problem loan exposures and increased provisioning to bolster the impact of the crisis

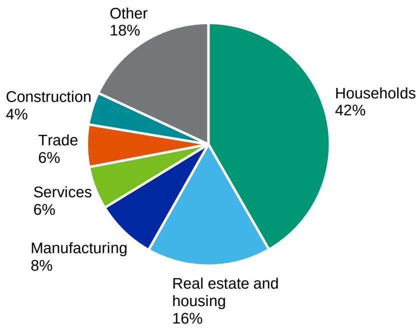
Nonperforming loan stock developments and coverage, 2014 - H1 2020



Sources: Company reports and Moody's Investors Service

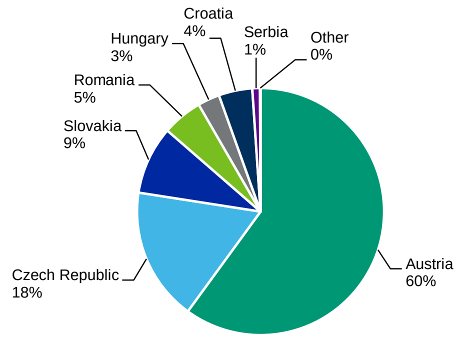
Erste's loan book is based in its home market of Austria (around 50% of total gross customer loans as of 30 June 2020) and continues to display a high exposure to the CEE economies, a clear differentiating factor compared with the universal banks domiciled in other European countries. The bank benefits 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 €83.6 billion or 50% of gross customer loans as of 30 June 2020. 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 H1 2020



Sources: Company reports and Moody's Investors Service

Exhibit 5
Erste Group's regional loan exposures
As of H1 2020



Sources: Company reports and Moody's Investors Service

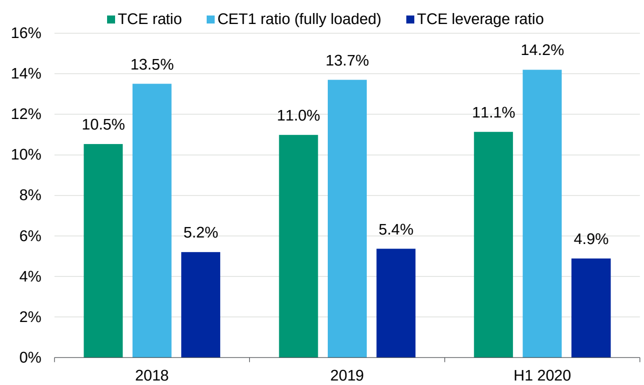
Erste reported a problem loan ratio of 2.4% as of 30 June 2020. The bank's coverage ratio, which excludes all non-cash collateral, improved to 91.1% as of the same date from 77.1% as of 31 December 2019 (2018: 73.4%). We view these levels as very sound and appropriate to shield Erste from undue losses resulting from its problem loans, subject to the bank maintaining a tight control over its geographical concentrations and lending criteria. 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 challenge 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 half-year 2020 (11.1%). 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[2]. 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.

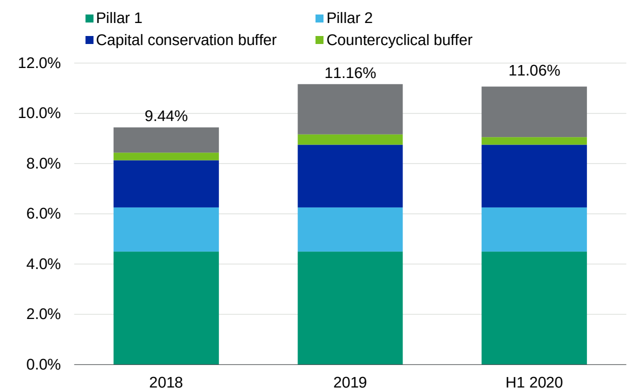
With a reported Common Equity Tier 1 (CET1) capital ratio of 14.3% as of 30 June 2020, we consider Erste's capital sufficient to cover the intrinsic risks of the bank's operating model, which is geared toward CEE. In addition, balance-sheet leverage is not a constraint for the bank, displaying a Basel III leverage ratio of 6.6% as of 30 June 2019 and a TCE leverage ratio of around 4.9% (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 below 11% in H1 2020 (10.29%, 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



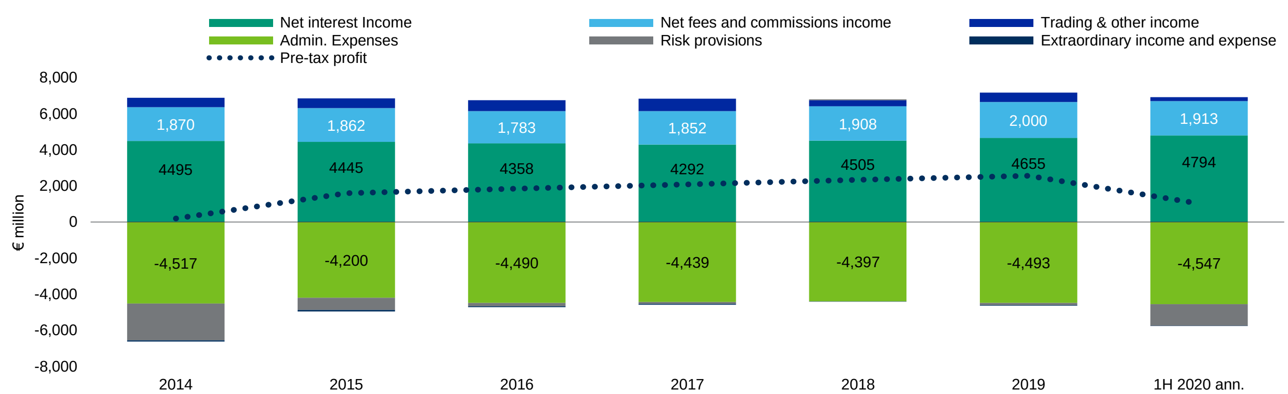
The exhibit displays the fully loaded SREP requirements for 2019 and 2020, transitional for 2018. Excludes the Pillar 2 CET1 guidance. Requirements including corona related measures: 10.16% excluding P2 guidance, 14.43% for total capital on a fully loaded basis
Sources: Company reports and Moody's Investors 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 is three notches above the ba3 initial score, reflecting our view of the bank's profitability to recover from the half-year dip after Erste booked significant provisions of 82 bps, and our expectation of the credit cycle. The bank's solid operational profitability provides it with a good cushion to deal with higher risk costs, without impairing its capital position.

Overall, supported by our expectation of risk costs of around 60 bps-80 bps for 2020, profitability is likely to drop in 2020 compared with the level in 2019, driven by higher loan-loss provisions, however, we expect it to recover to a level within the baa3 Profitability score range for the group's Strong Macro Profile (net income/tangible banking assets [TBA] of 0.5%-0.75%, 2017-19: average 0.83%).

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 and increasingly in the Czech Republic.

In H1 2020, Erste reported net profit of €294 million, down 60% on an annualised basis, driven by significantly higher loan loss provisions of €675 million (or 82 bps of gross loans, up from 7bp for the full year 2019), anticipating rising risk costs, and a lower result for trading and the fair value for financial instruments of €9 million (down from 170 million for the half-year 2019). Otherwise, the underlying trend in operating profitability remained stable, with net interest income of €2.4 billion (H1 2019: €2.3 billion) and a fee and commission income of €957 million (H1 2019: €980 million).

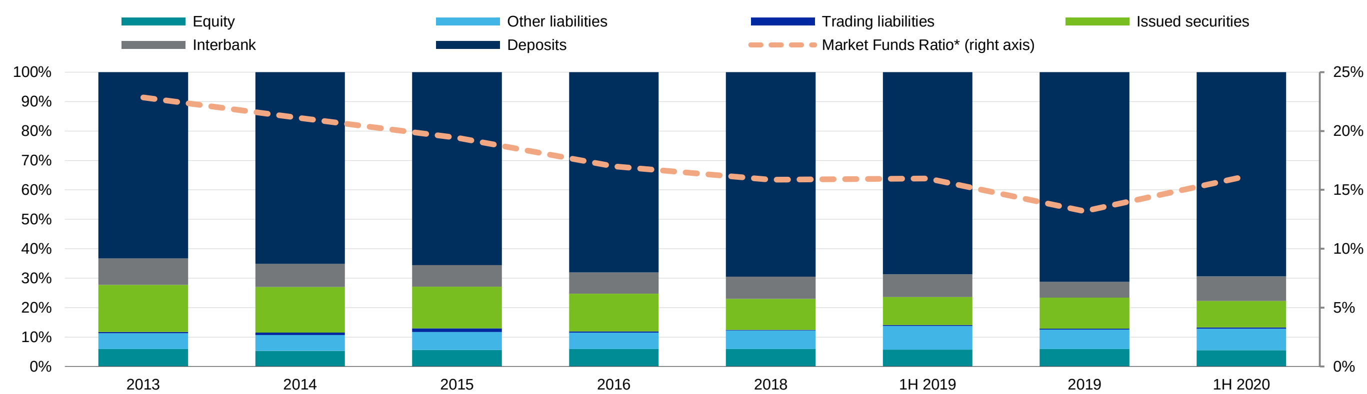
Deposit-rich funding profile, with only a moderate and declining reliance on wholesale funding

Erste's a2 Funding Structure score, one notch above the initial a3 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.

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 in H1 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 (H1 2020: 89.6%, 2019: 92.2%, 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 continued to decline in 2019, with an uptick caused after recourse to higher ECB funding as of half-year 2020. A stable proportion of Erste's funding was raised through senior unsecured, junior senior and subordinated debt securities (€14.0 billion as of 30 June 2020), with the remainder largely consisting of a relatively higher portion of covered bonds (€13.7 billion). We estimate that the bank's annual long-term refinancing needs will be in the range of €2 billion-€3 billion for the next two to three years, a very low figure compared with the bank's balance-sheet size of €265 billion as of 30 June 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[3]. However, depending on the details of the final Minimum Requirement for Own Funds and Eligible Liabilities (MREL) requirements, the market funding ratio may somewhat increase because of additional funding needs within Erste's CEE franchises in the coming years.

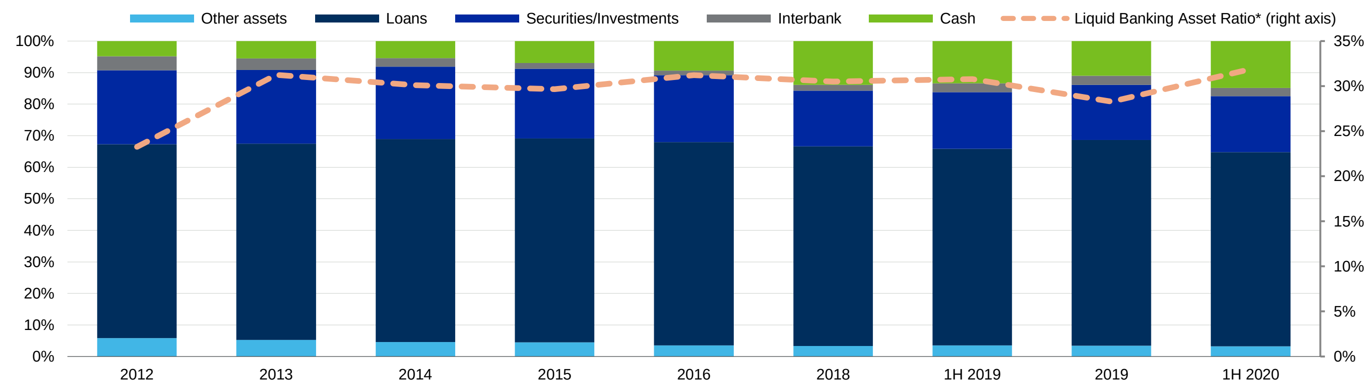
Highly liquid balance sheet mitigates potential funding market dislocations

We assign a baa1 Liquid Resources score to Erste, reflecting the bank's liquid assets that exceed funding needs significantly. We regard Erste's balance-sheet liquidity as comfortable, with liquid banking assets — such as cash and trading and financial assets — equivalent to around 30% of its total balance sheet as of 30 June 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 162% as of 30 June 2020. Moreover, additional liquidity could be generated through the issuance of covered bonds. Erste has a significant additional leeway of above €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[4] and as "Moderate" risk in our social risk heat map[5]. 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 CEE or, 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 this new option. 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[6] 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[7].

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.

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 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.

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 positioned at A1(cr)/P-1(cr)

The bank's CR Assessment is positioned 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. 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 used in rating Erste is our 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 11

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		3.1%	baa1	↔	baa2	Quality of assets	Expected trend
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - fully loaded)		11.1%	baa2	↔	baa1	Risk-weighted capitalisation	Capital fungibility
Profitability							
Net Income / Tangible Assets		0.3%	ba3	↑	baa3	Return on assets	Expected trend
Combined Solvency Score			baa3		baa2		
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets		13.2%	a3	↔	a2	Extent of market funding reliance	Deposit quality
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets		28.3%	baa1	↔	baa1	Stock of liquid assets	Asset encumbrance
Combined Liquidity Score			a3		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	45,241	27.6%	48,621	29.7%
Deposits	98,052	59.8%	92,900	56.7%
Preferred deposits	72,559	44.3%	72,727	44.4%
Junior deposits	25,494	15.6%	20,173	12.3%
Junior senior unsecured bank debt	670	0.4%	670	0.4%
Dated subordinated bank debt	5,151	3.1%	4,591	2.8%
Preference shares (bank)	2,000	1.2%	2,500	1.5%
Equity	4,916	3.0%	4,916	3.0%
Total Tangible Banking Assets	156,031	100.0%	163,874	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	26.0%	26.0%	26.0%	26.0%	3	3	3	3	0	a1
Counterparty Risk Assessment	26.0%	26.0%	26.0%	26.0%	3	3	3	3	0	a1 (cr)
Deposits	26.0%	7.7%	26.0%	13.6%	2	3	2	2	0	a2
Senior unsecured bank debt	26.0%	7.7%	13.6%	7.7%	2	1	2	2	0	a2
Junior senior unsecured bank debt	7.7%	7.3%	7.7%	7.3%	0	0	0	0	0	baa1
Dated subordinated bank debt	7.3%	4.5%	7.3%	4.5%	-1	-1	-1	-1	0	baa2
Non-cumulative bank preference shares	4.5%	3.0%	4.5%	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 12

Category	Moody's Rating
ERSTE GROUP BANK AG	
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	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	Negative
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)
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(m)
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	Stable
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 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 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 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.

REPORT NUMBER 1243842

Contacts

Gerson Morgenstern +49.69.70730.796
Associate Analyst
gerson.morgenstern@moodys.com

CLIENT SERVICES

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

Moody's INVESTORS SERVICE