

Rating Action: Moody's assigns new (P)Baa1 junior senior unsecured debt programme rating to Erste Group Bank AG

13 May 2019

Frankfurt am Main, May 13, 2019 -- Moody's Investors Service (Moody's) has today assigned a (P)Baa1 junior senior unsecured MTN programme rating to the Debt Issuance Programme (DIP) of Erste Group Bank AG (Erste). This rating action follows Erste's update of its EUR30 billion DIP programme, under which the bank allows for issuance of debt explicitly designated as "Non-Preferred Senior Instruments", or junior senior unsecured debt, in the documentation.

Moody's said that Erste's existing ratings and positive outlooks are unaffected by today's rating action.

RATINGS RATIONALE

The (P)Baa1 junior senior unsecured MTN programme rating reflects Erste's baa1 Baseline Credit Assessment (BCA) and Adjusted BCA, as well as the results of Moody's Advanced Loss Given Failure (LGF) analysis, which takes into account the severity of loss faced by the different liability classes in resolution. For Erste, the rating agency's Advanced LGF analysis indicates a moderate loss severity for these instruments in the event of the bank's failure, leading to a positioning of the rating in line with the bank's (Adjusted) BCA.

The rating of this new instrument class does not benefit from any government support uplift, in line with Moody's assumption of a low probability of government support to be forthcoming to instruments specifically designated as loss-absorbing in resolution.

Erste's 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 over the next few years, further supported by a significant volume of liquid resources. The rating agency said that Erste'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.

WHAT COULD CHANGE THE RATINGS UP / DOWN

Erste's ratings could be upgraded because of: (1) an upgrade of its BCA; or (2) a sustained increase in volumes of instruments that are explicitly designed to absorb losses prior to senior unsecured instruments. Upward pressure on Erste's baa1 BCA could be prompted by a combination of all of the following factors: (1) a further significant and sustained reduction in the volume of problem loans; (2) a sustained and further improvement in Erste's capitalisation metrics building a sizeable buffer above the bank's regulatory requirements; and (3) Erste improving its operating performance such that it achieves higher profitability levels above those achieved in prior years.

Downward pressure could be exerted on Erste's long-term ratings as a result of: (1) a downgrade of its BCA; or (2) a decrease in its bail-inable debt cushion, 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 exerted following: (1) an increase in the group's reliance on confidence-sensitive wholesale funding sources beyond Moody's current expectations; (2) a reduction in the current volume of liquid resources, such that it weakens Erste's overall liquidity profile; (3) a meaningful and sustained formation of problem loans and related loan-loss charges; or (4) 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 regulatory requirements.

Downward rating pressure on the bank's ratings could develop if Erste significantly reduces the volume of bonds outstanding, in particular subordinated debt or low-trigger Additional Tier 1 instruments, in such a manner that it returns a lower rating uplift as a result of Moody's Advanced LGF analysis.

LIST OF ASSIGNED RATINGS:

Assignments:

Junior senior unsecured MTN programme rating (local currency) at (P)Baa1

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was Banks published in August 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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