

Erste Group Bank AG

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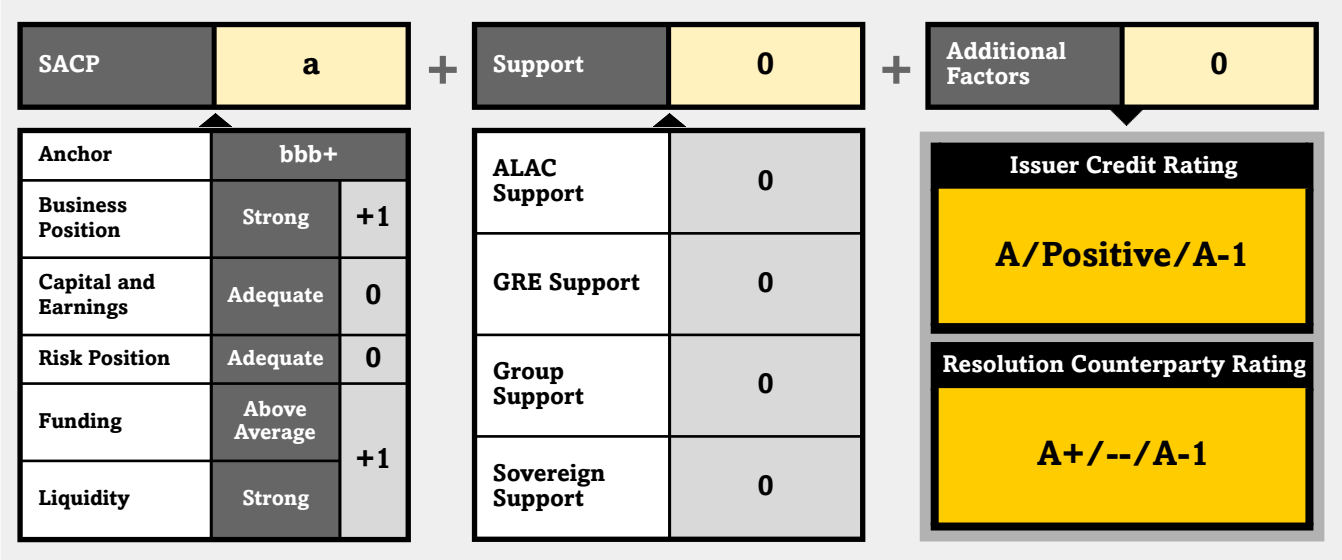
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Erste Group Bank AG



Major Rating Factors

Strengths:	Weaknesses:
<ul style="list-style-type: none"> • Strong franchise in Austria and Central and Eastern European (CEE) countries. • Stable operating revenues from traditional customer-led retail and commercial banking operations. • Strong liquidity and funding profile dominated by granular retail deposits. 	<ul style="list-style-type: none"> • Sensitivity to economic and political developments in the CEE region. • Moderate reliance on wholesale funding could reduce needs to build up higher additional loss-absorbing capital (ALAC) buffers.

Outlook: Positive

The positive outlook on Austria-based Erste Group Bank AG (Erste) reflects S&P Global Ratings' view that, over the next two years, the group will continue to strengthen its risk-adjusted capitalization, partly supported by the issuance of further hybrid capital instruments. We expect that the operating environment in Erste's biggest core markets will remain stable, facilitating the generation of sound earnings in its traditional customer-led retail and corporate customer business.

Upside scenario

We could raise our issuer credit ratings (ICR) by one notch if Erste were to continue strengthening its risk-adjusted capital (RAC) ratio, or if there was greater insight into the pace and size of its build-up of bail-in-able capital buffers. Such improvement could lead to a better capital assessment, if the RAC ratio were to increase and remain higher than 10%, or to an uplift based on ALAC if the buffer strengthened sufficiently. An upgrade of Erste would, however, hinge on our view of the group's creditworthiness as being clearly and sustainably consistent with that of similarly rated peers at that higher rating level, in particular regarding profitability, diversification, and asset quality. However, an uplift based solely on higher ALAC buffers could improve the banks' ICR but not their stand-alone creditworthiness, and we would therefore not apply a corresponding potential ratings uplift to the banks' regulatory capital instruments.

Downside scenario

We could revise the outlook to stable if, for example, we observe aggressive growth in higher-risk countries that suggests limited scope for improvement of Erste's creditworthiness, or if we see a lower likelihood of a substantial rise in the RAC or ALAC metrics.

Rationale

We base the ratings on our analysis of the consolidated Erste Group Bank AG together with its subsidiaries and participations including Erste Bank Oesterreich, Salzburger Sparkasse, Tiroler Sparkasse, s-Bausparkasse, other savings banks of the Haftungsverbund in Austria, and core subsidiaries in CEE countries.

Our 'a' group credit profile (GCP) on Erste is based on its 'bbb+' anchor, the starting point for our ratings on Erste. The anchor reflects our view of weighted economic risks in the countries where Erste operates and our industry risk assessment for Austria, as well as our understanding that growth of Erste's retail and corporate lending will mainly be in lower-risk countries such as Austria, Czech Republic, and Slovakia.

The ratings also take into account Erste's strong business position, reflecting our expectation that it will maintain a leading market position with sustainable franchises in retail, small and midsize enterprises (SMEs), and corporate banking in Austria and several core countries in CEE markets. We factor in Erste's adequate capital and earnings positions, based on our expectation of a RAC ratio in the range of 9.5%-10.0% in the next 12-24 months. This is driven by sound earnings generation and retention into capital from stable economic environments in Erste's main countries of operation, and we consider that Erste's retail and SME focus supports its quality of earnings, making revenues predictable and relatively resilient to economic swings. We expect Erste will maintain its adequate risk position, on the

back of sound asset quality metrics in its diversified loan portfolio, supported by growth in mainly lower-risk countries, materially improved asset quality from reductions in nonperforming loans, and relatively low single-name and sector concentrations in the loan book. We consider Erste's funding to be above average and its liquidity strong, which reflects our view of the stability of Erste's large retail funding base, especially in its largest markets in Austria, the Czech Republic, and Slovakia, and its moderate reliance on wholesale funding. We believe that the strong consolidated funding and liquidity ratios we observe at the Erste group level are now also evident at the main operating subsidiaries. Our assessment of Erste's liquidity as strong primarily reflects the bank's prudent liquidity management and high liquidity reserves.

Our assessment of Erste's ALAC does not currently lead us to add any uplift to the ratings. We include all of the consolidated group's junior instruments in our ALAC assessment because, over our projection period, we believe they have capacity to absorb losses without triggering a default on Erste's senior obligations.

We view the Erste group as having high systemic importance in Austria, but we assess Austria's tendency to support private sector commercial banks as uncertain. As a result, for a systemic bank like Erste, we do not include any uplift for extraordinary government support in the long-term rating.

We set the resolution counterparty rating on Erste Group bank AG at 'A+', one notch above the 'A' long-term issuer credit rating, reflecting the typical approach under our framework when the issuer credit rating ranges from 'BBB-' to 'A+'. It also reflects our jurisdiction assessment on Austria.

Table 1

Erste Group Bank AG Key Figures					
	--Year-ended Dec. 31--				
(Mil. €)	2018	2017	2016	2015	2014
Adjusted assets	235,284.8	219,135.9	206,836.8	198,278.8	194,846.4
Customer loans (gross)	151,443.8	143,509.3	135,267.5	131,905.7	128,325.0
Adjusted common equity	15,748.9	14,378.9	13,270.0	12,143.3	11,163.4
Operating revenues	6,730.0	6,511.9	6,505.4	6,500.9	5,900.6
Noninterest expenses	3,997.1	3,990.4	3,862.1	3,705.7	3,787.3
Core earnings	2,443.8	1,951.1	1,976.8	1,643.6	(555.3)

Table 2

Erste Group Bank AG Business Position					
	--Year-ended Dec. 31--				
(%)	2018	2017	2016	2015	2014
Loan market share in country of domicile	20.3	20.0	19.6	19.4	19.2
Deposit market share in country of domicile	19.8	19.2	18.8	18.5	18.4
Total revenues from business line (mil. €)	6,730.0	6,511.9	6,644.1	6,500.9	5,900.6
Commercial banking/total revenues from business line	22.6	22.6	22.6	22.7	24.7
Retail banking/total revenues from business line	51.5	50.7	49.5	51.2	56.2
Commercial & retail banking/total revenues from business line	74.2	73.3	72.1	73.9	81.0
Trading and sales income/total revenues from business line	7.9	8.5	7.8	6.4	7.0
Other revenues/total revenues from business line	17.9	18.2	20.1	19.7	12.0

Table 2

Erste Group Bank AG Business Position (cont.)					
	--Year-ended Dec. 31--				
(%)	2018	2017	2016	2015	2014
Investment banking/total revenues from business line	7.9	8.5	7.8	6.4	7.0
Return on average common equity	13.7	10.6	11.0	9.3	(13.6)

Table 3

Erste Group Bank AG Capital And Earnings					
	--Year-ended Dec. 31--				
(%)	2018	2017	2016	2015	2014
Tier 1 capital ratio	14.3	13.8	13.3	12.0	10.6
S&P Global Ratings' RAC ratio before diversification	N/A	9.3	8.4	7.3	6.0
S&P Global Ratings' RAC ratio after diversification	N/A	9.8	9.5	7.8	6.6
Adjusted common equity/total adjusted capital	94.1	93.5	96.4	99.1	98.9
Net interest income/operating revenues	68.1	66.8	67.2	68.4	76.2
Fee income/operating revenues	28.4	28.4	27.4	28.6	31.7
Market-sensitive income/operating revenues	3.0	5.6	4.3	4.8	(5.4)
Noninterest expenses/operating revenues	59.4	61.3	59.4	57.0	64.2
Preprovision operating income/average assets	1.2	1.2	1.3	1.4	1.1
Core earnings/average managed assets	1.1	0.9	1.0	0.8	(0.3)

RAC--Risk-adjusted capital. N/A--Not available.

Table 4

Erste Group Bank AG Risk Position					
	--Year-ended Dec. 31--				
(%)	2018	2017	2016	2015	2014
Growth in customer loans	5.5	6.1	2.5	2.8	0.5
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	(4.9)	(3.8)	(5.9)	(9.0)
Total managed assets/adjusted common equity (x)	15.0	15.3	15.7	16.4	17.6
New loan loss provisions/average customer loans	(0.0)	0.1	0.1	0.6	1.7
Net charge-offs/average customer loans	(0.1)	(0.1)	(0.1)	(0.1)	0.0
Gross nonperforming assets/customer loans + other real estate owned	3.5	4.4	5.3	7.4	8.9
Loan loss reserves/gross nonperforming assets	64.7	63.4	65.0	61.2	65.9

RWA--Risk-weighted assets. N/A--Not available.

Table 5

Erste Group Bank AG Funding And Liquidity					
	--Year-ended Dec. 31--				
(%)	2018	2017	2016	2015	2014
Core deposits/funding base	76.5	77.7	76.4	74.1	72.2
Customer loans (net)/customer deposits	91.8	93.1	94.8	98.7	99.0
Long-term funding ratio	91.5	92.6	92.4	91.7	90.8
Stable funding ratio	126.1	127.9	125.2	120.4	121.5

Table 5

Erste Group Bank AG Funding And Liquidity (cont.)					
	--Year-ended Dec. 31--				
(%)	2018	2017	2016	2015	2014
Short-term wholesale funding/funding base	9.2	8.1	8.3	8.9	9.8
Broad liquid assets/short-term wholesale funding (x)	3.5	4.1	3.9	3.3	3.0
Net broad liquid assets/short-term customer deposits	37.3	44.6	41.8	41.7	44.9
Short-term wholesale funding/total wholesale funding	38.5	35.4	34.7	34.3	35.3

Related Criteria

- Criteria - Financial Institutions - General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- Criteria - Financial Institutions - General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria - Financial Institutions - Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Financial Institutions - Banks: Commercial Paper I: Banks, March 23, 2004

Anchor Matrix										
Industry Risk	Economic Risk									
	1	2	3	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of June 19, 2019)*

Erste Group Bank AG

Issuer Credit Rating	A/Positive/A-1
Resolution Counterparty Rating	A+/-/A-1
Commercial Paper	
<i>Local Currency</i>	A-1
Junior Subordinated	BBB-
Senior Subordinated	A-
Senior Unsecured	A
Short-Term Debt	A-1
Subordinated	BBB+

Issuer Credit Ratings History

30-Oct-2017	A/Positive/A-1
14-Mar-2017	A-/Positive/A-2
17-May-2016	BBB+/Stable/A-2
09-Jun-2015	BBB+/Negative/A-2
03-Feb-2015	A-/Watch Neg/A-2
13-Aug-2014	A-/Negative/A-2

Sovereign Rating

Austria	AA+/Stable/A-1+
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Related Entities

Erste Group Bank AG (Hong Kong Branch)

Commercial Paper	A-1
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*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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