S&P Global Ratings

RatingsDirect®

Erste Group Bank AG

Primary Credit Analyst:
Harm Semder, Frankfurt (49) 69-33-999-158; harm.semder@spglobal.com

Secondary Contact:
Anna Lozmann, Frankfurt (49) 69-33-999-166; anna.lozmann@spglobal.com

Table Of Contents

Erste Group Bank AG

SACP	a

Anchor	bbb+	
Business Position	Strong	+1
Capital and Earnings	Adequate	0
Risk Position	Adequate	0
Funding	Above Average	+1
Liquidity	Strong	

\+

Support	0
ALAC Support	0
GRE Support	0
Group Support	0
Sovereign Support	0

\+

Additional Factors	0

Issuer Credit Rating
A/Positive/A-1

Resolution Counterparty Rating
A+/--/A-1

Major Rating Factors

Strengths:	Weaknesses:
• 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.	• 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 stable outlook on Austria-based Erste Group Bank AG reflects S&P Global Ratings' view that, over the next two years, the group will continue to strengthen its risk-adjusted capitalization, possibly supported by the issuance of further hybrid capital instruments. We expect that the operating environment in Erste's biggest core markets might soften but still remain relatively benign, 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. This 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 the higher rating level, in particular regarding profitability, diversification, and asset quality. However, an uplift based solely on higher ALAC buffers could lead to an upgrade but not an upward revision to the bank's stand-alone creditworthiness, so we would not apply a corresponding potential ratings uplift to Erste's hybrid (including senior non preferred) 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 the bank's creditworthiness, or if we see a lower likelihood of a substantial rise in the RAC or ALAC metrics.

Rationale

Our ratings reflect consolidated Erste's well-managed business model and digital transformation in its leading market position with sustainable franchises in retail, small and midsize enterprises (SMEs), and corporate banking in Austria and several core strategic countries in CEE markets.

We expect that Erste will continue to strengthen its balance sheets from solid earnings and related retention into capital. Moreover, the bank's sound risk management and well-diversified business mix from its retail and SME focus supports its quality of earnings, also making revenues predictable and relatively resilient to any material worsening of the still-benign economic environments in Erste's main countries of operation. The bank is also to benefit from its improved asset quality from reductions in nonperforming loans, and relatively low single-name and sector concentration in the loan book. Accordingly, we project that our main capital indicator, the RAC ratio, on Erste will remain in the 9.5%-10.0% range in the next 12-24 months. This includes also our understanding that growth of the bank's retail and corporate lending will mainly be in lower-risk countries such as Austria, the Czech Republic, and Slovakia.

Erste strongly benefits from its through-the-cycle tested franchise and stability in large retail funding base, especially in its largest markets of Austria, the Czech Republic, and Slovakia; and its moderate reliance on wholesale funding.

Strong consolidated funding and liquidity ratios at the group level are similarly evident at the bank's main operating subsidiaries, and we expect that Erste will continue to stand out in terms of prudent liquidity management and high liquidity reserves in the next years.

We expect to have more clarity on the bank's ALAC build-up in the next years once the Austrian regulators announce their minimum requirement for own funds and eligible liabilities (MREL) requirements for individual banks, which we currently expect until mid- 2020.

Anchor: 'bbb+', reflecting Erste group's mix of economic risks in Austria and CEE countries combined with industry risk in Austria

We use our Banking Industry Country Risk Assessment to determine a bank's anchor, the starting point in assigning an issuer credit rating. Our economic risk score for Austria is '2' on a scale of '1' to '10' ('1' being the lowest risk and '10' the highest). However, the weighted average of economic risks of countries in which Erste operates, based on the geographic distribution of its exposures at default, is close to '3'. We believe that the group will retain its higher-risk profile compared with purely domestic banks, because of its strong presence in CEE. We anticipate no material shift in the geographic split of the bank's exposures in the next two years. However, changes in our assessment of the economic risk in Erste's operating countries might affect weighted economic risk.

Reflecting the average weighted economic risk score of '3' and industry risk score of '3' for the Austrian banking system, we derive a 'bbb+' anchor for the bank.

We base our economic risk assessment on Austria's highly competitive and diverse economy, with strong economic fundamentals, high integration in Western European economies, and strong ties to Eastern and Southeastern Europe. Economic growth is aiding the banking sector's performance. We believe that the Austrian economy will continue expanding, but don't expect an accumulation of imbalances due to further increases in real estate prices. Credit risk in the economy is likely to remain low, reflecting a healthy private sector, low lending growth, and prudent lending standards, which we expect will persist.

With regards to industry risk, Austrian banks face similar challenges as their global peers regarding business model optimization, ensuring sufficient and sustainable profitability, leveraging the benefits of the digital era, and introducing measures to avoid disruption and franchise damage from cyber-attacks and customer data mismanagement. We believe that most Austrian banks still have much work to do to improve profitability, because we continue to see moderate overcapacity in their domestic operations and low prices in core banking products, resulting in lower domestic margins than those of many peers in other countries. In our view, enhanced focus on efficiency and profitability and recent de-risking contribute to system stability over the cycle.

Table 1

Erste Group Bank AG--Key Figures

	--Year ended Dec. 31--				
(Mil. €)	**2019***	**2018**	**2017**	**2016**	**2015**
Adjusted assets	246,771.0	235,284.8	219,135.9	206,836.8	198,278.8
Customer loans (gross)	157,185.6	151,443.8	143,509.3	135,267.5	131,905.7
Adjusted common equity	15,728.0	14,919.9	14,378.9	13,270.0	12,143.3
Operating revenues	3,603.9	6,730.0	6,511.9	6,505.4	6,500.9

Table 1

Erste Group Bank AG--Key Figures (cont.)

	--Year ended Dec. 31--				
(Mil. €)	**2019***	**2018**	**2017**	**2016**	**2015**
Noninterest expenses	2,396.5	3,997.1	3,990.4	3,862.1	3,705.7
Core earnings	1,031.2	2,443.8	1,951.1	1,976.8	1,643.6

*Data as of June 30.

Business position: Leading retail and corporate franchise in Austria and some CEE countries

We anticipate that Erste will maintain its leading market position (see charts 1 and 2) with sustainable franchises in retail, SMEs, and corporate banking in Austria and several core countries in CEE markets. Thanks to its widespread operations, Erste will continue to benefit from good geographic diversification of revenues, although we acknowledge some correlation among CEE countries and between CEE and Austria and the group's higher reliance on net interest income sources than similarly rated peers.

We base the ratings on our analysis of Erste consolidated 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. Erste, with total assets of €248 billion as of June 30, 2019, is one of the top three banks in Austria, with about a 20% share in domestic retail loans and in retail deposits at June 30. Equally important for our assessment is Erste's strong position across several CEE countries, including the Czech Republic, Slovakia, and Romania, where it is the local market leader. The management team is stable and has, in our view, followed a generally consistent strategy. We expect the group strategy to continue focusing on its domestic market and organic growth in a few CEE markets where Erste holds a strong footprint. Positively, the bank is not present in higher-risk countries.

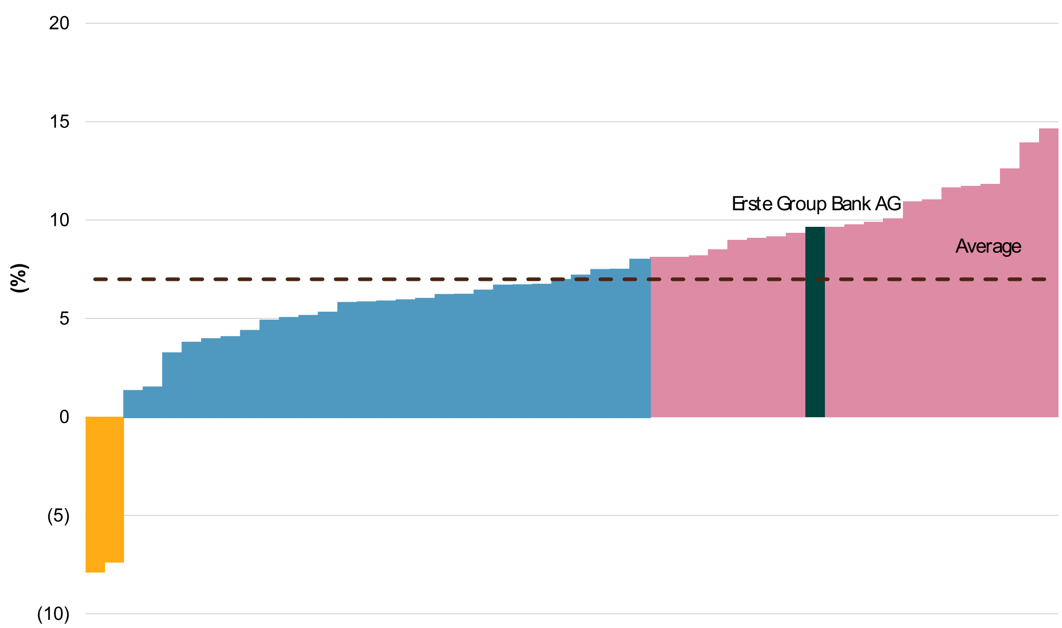
Erste's savings bank brand is strong in terms of image and customer loyalty, notably in Austria, but also in the Czech Republic, Slovakia, and Croatia. Domestic retail operations are concentrated in 47 savings banks that differ widely in size. Owing to the cross-guarantee contract (Haftungsverbund), Erste also consolidates those savings banks in which it does not hold a majority stake.

We also take into consideration the group's exposure to some economically riskier countries in CEE when deriving the anchor. Both margins and credit losses are typically higher in CEE than in Austria, which means that these countries tend to positively influence the group's profitability through the cycle. Although Erste's Austrian operations show lower margins, they provide stable returns and we expect this to continue.

Compared with many large Western European banks, the group has a stronger focus on retail clients (about 50% of revenues), and typically derives most of its revenues from that segment. The bank also generates revenues from small businesses and the corporate lending segment, as well as the savings banks segment, comprising the member savings banks in the cross-guarantee system (each segment contributes about 20% of revenues), which we view as steady sources. We believe this will provide the business model with revenue stability and compensate for Erste's lower business diversity than that of larger Western European banking groups.

Chart 1

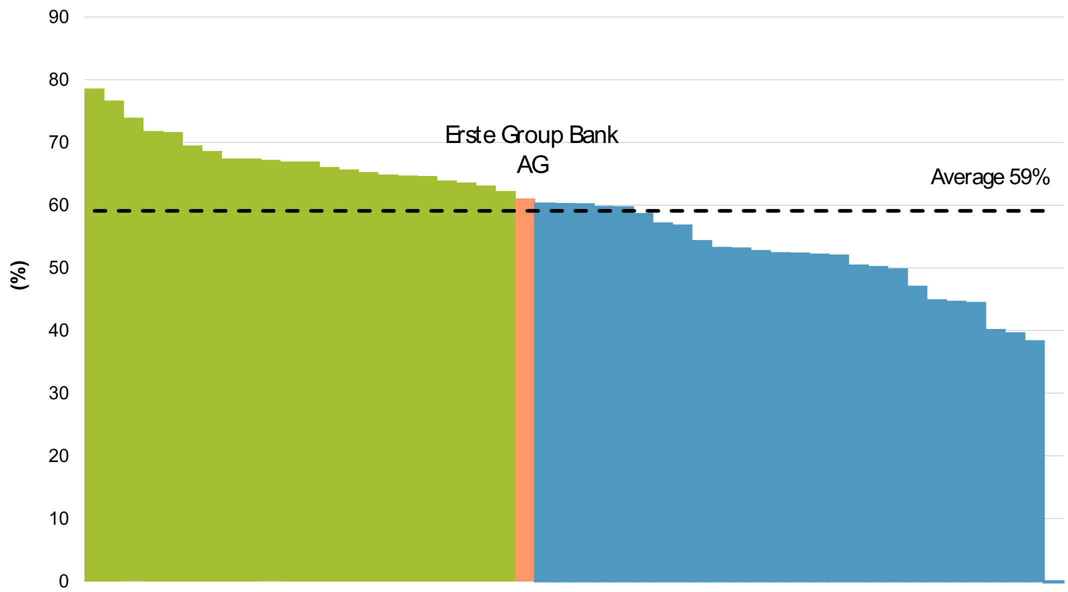
European Top 50 Banks--S&P Global Ratings' Forecast Of 2019 Return On Equity



Erste's data as of Sept. 20 ,2019. Top 50 EU bank's data as of Oct. 31, 2018.

Chart 2

European Top 50 Banks--Forecast Of 2019 Cost-To-Income



Erste's data as of Sept. 20 ,2019. Top 50 EU bank's data as of Oct. 31, 2018. The average and chart excludes data for Dexia S.A. Source: S&P Global Ratings.

Table 2

Erste Group Bank AG--Business Position

	--Year ended Dec. 31--				
(%)	**2019***	**2018**	**2017**	**2016**	**2015**
Loan market share in country of domicile	20.5	20.3	20.0	19.6	19.4
Deposit market share in country of domicile	20.2	19.8	19.2	18.8	18.5
Total revenues from business line (currency in millions)	3,603.9	6,730.0	6,511.9	6,644.1	6,500.9
Commercial banking/total revenues from business line	21.7	22.6	22.6	22.6	22.7
Retail banking/total revenues from business line	48.1	51.5	50.7	49.5	51.2
Commercial and retail banking/total revenues from business line	69.8	74.2	73.3	72.1	73.9
Trading and sales income/total revenues from business line	4.0	7.9	8.5	7.8	6.4
Other revenues/total revenues from business line	26.2	17.9	18.2	20.1	19.7
Investment banking/total revenues from business line	4.0	7.9	8.5	7.8	6.4
Return on average common equity	10.9	13.7	10.6	11.0	9.3

*Data as of June 30.

Capital and earnings: Capitalization supported by sound earnings and hybrid issuance

We assess Erste's capital and earnings as a neutral ratings factor, which mainly reflects our projection that the RAC ratio will range from 9.5%-10.0% in the next 12-24 months, compared with 9.7% at end-2018. We believe the capital buildup will come from solid earnings and related moderate earnings retention into capital. Moreover, we anticipate possible further hybrid issuances, following on from the €500 million additional tier 1 instruments issued mid 2019, which qualify as going-concern loss-absorbing capital under our definition.

We anticipate Erste's total lending volume and our measure of risk-weighted assets to increase about 6% in 2019-2021--a manageable pace, in our view, but relatively higher than that for many eurozone peers. At the same time, as expected, the net interest margin remains under pressure due to a longer lasting low interest rate environment, partially offset by Erste's repricing of its customer portfolio. We expect that the net fee and commission income will continue to improve moderately from 2019-2021.

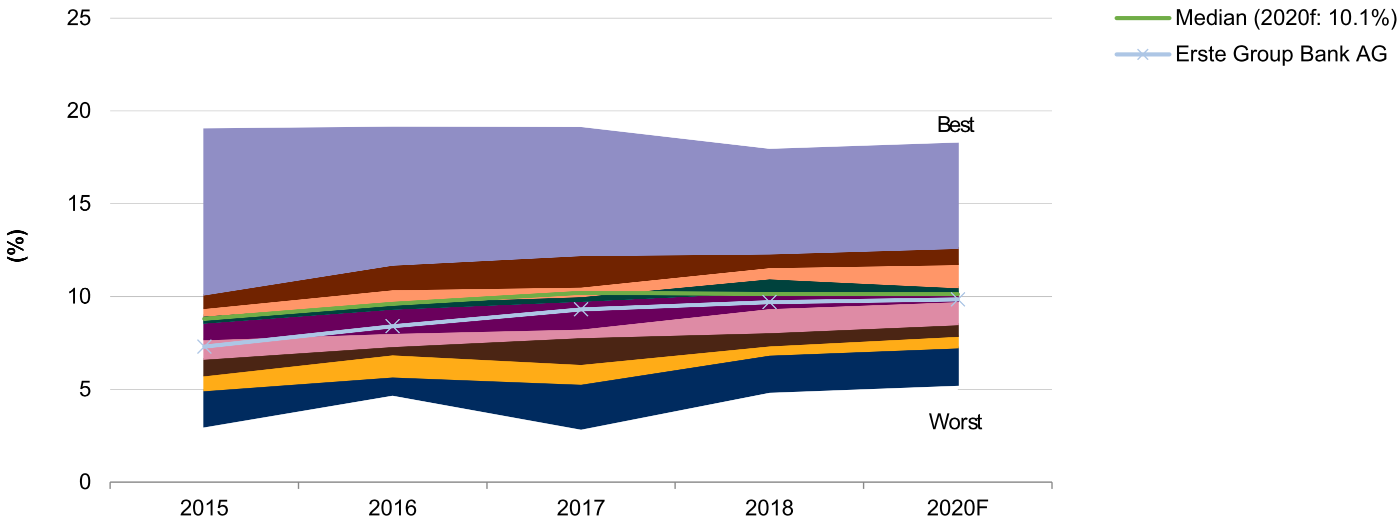
We forecast that the bottom line, benefiting from improvement in asset quality in recent years, will continue to benefit from relatively low risk costs of about 10 basis points (bps) on average customer loans in 2019-2020 compared with previous reversals of 4 bps in 2018 and reversals of 6 bps until June 30, 2019. We expect overall operating costs to grow about 2% annually in 2019-2021. We estimate pretax profits of €2.0 billion-€2.2 billion in 2019-2021 (compared with €2.50 billion in 2018).

We believe Erste's retail and SME focus supports its quality of earnings, making revenues predictable (at about €6.6 billion for 2019) and relatively resilient to economic swings. The volatile portion of revenues is small on average, and nonrecurring elements have traditionally been low. The three-year average earnings buffer, reflecting the bank's ability to cover normalized losses, stands at about 0.80% for the forecast period.

Almost one-third of total adjusted capital (TAC)--our main measure of loss-absorbing capital--consists of minority capital. However, in our opinion, this does not weaken the capital base's quality of the because of the way the cross-guarantee system in the Austrian savings bank sector is set up. The steering company, in which Erste indirectly holds 63.9%, implements the provisions of the agreement governing the cross-guarantee system. The group owns the controlling interest in the steering company, and has to fully consolidate all members of the cross-guarantee system according to International Financial Reporting Standards rules. At the same time, Erste indirectly controls the uniform risk management and strategy across the sector. We expect hybrids included in TAC to remain below 10% in 2019-2020, contributing to the overall adequate quality of capital.

Chart 3

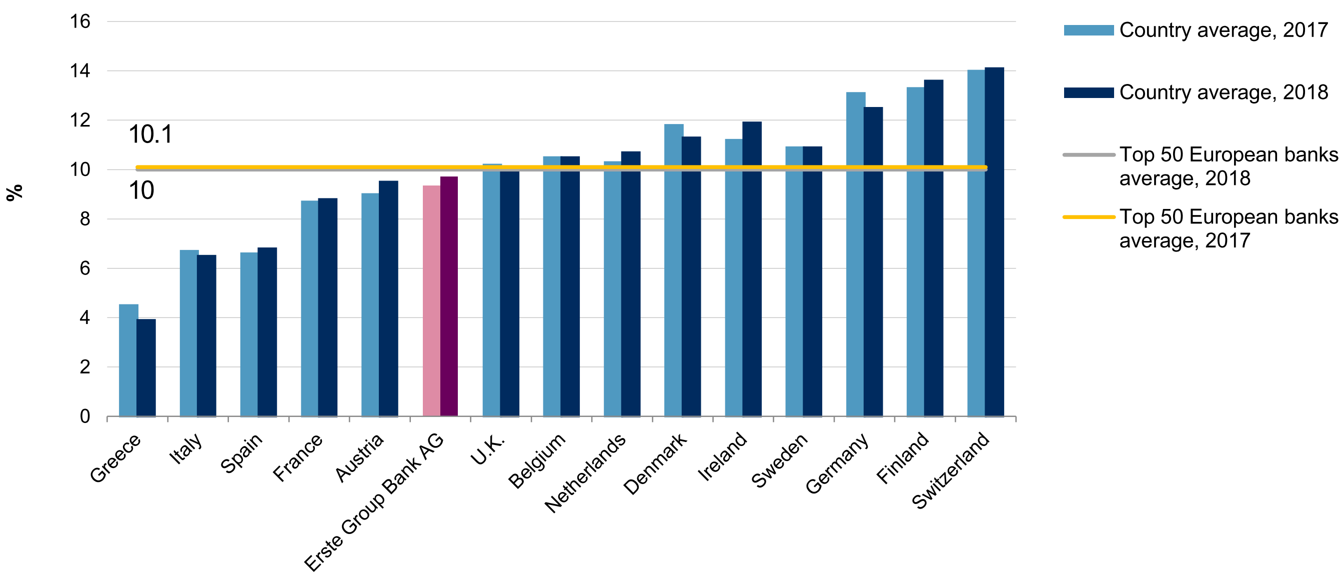
RAC Ratio Before Diversification For The Top 50 Rated European Banks, 2018, Dispersion Around The Median



Each band depicts the distribution of 10 banks, with the darkest shade being the 10 closest to the median and then each lighter shade being the next 10 further away. F--S&P Global Ratings' forecast. Data as of December 2018. Source: S&P Global Ratings.

Chart 4

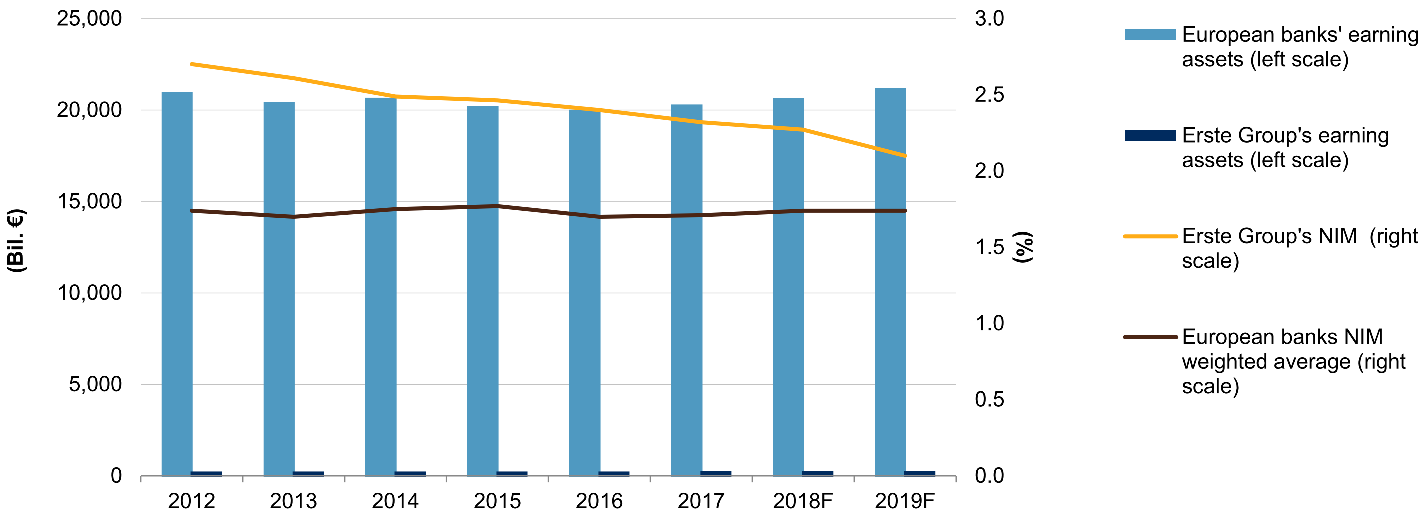
RAC Ratio Before Diversification For The 50 Largest Rated European Banks, 2018, By Country



F--S&P Global Ratings forecast. NIM--Net interest margin. Note: Excluding countries where only one rated bank is part of the top 50 European Banks. RAC--Risk-adjusted capital. Source: S&P Global Ratings.

Chart 5

Margins And Earning Assets Have Remained Fairly Steady For European Banks



F--S&P Global Ratings forecast. NIM--Net interest margin. Source: S&P Global Ratings.

Table 3

Erste Group Bank AG--Capital And Earnings

	--Year ended Dec. 31--				
(%)	**2019***	**2018**	**2017**	**2016**	**2015**
Tier 1 capital ratio	14.8	14.3	13.8	13.3	12.0
S&P Global Ratings' RAC ratio before diversification	N/A	9.7	9.3	N/A	7.3
S&P Global Ratings' RAC ratio after diversification	N/A	10.3	9.8	N/A	7.8
Adjusted common equity/total adjusted capital	91.3	93.8	93.5	96.4	99.1
Net interest income/operating revenues	64.6	68.1	66.8	67.2	68.4
Fee income/operating revenues	27.2	28.4	28.4	27.4	28.6
Market-sensitive income/operating revenues	5.0	3.0	5.6	4.3	4.8
Noninterest expenses/operating revenues	66.5	59.4	61.3	59.4	57.0
Preprovision operating income/average assets	1.0	1.2	1.2	1.3	1.4
Core earnings/average managed assets	0.9	1.1	0.9	1.0	0.8

*Data as of June 30. N/A--Not applicable.

Table 4

Erste Group Bank AG--Risk Adjusted Capital Framework Data

	Exposure*	**Basel III RWA**	**Average Basel III RW(%)**	**S&P Global Ratings RWA**	**Average S&P Global Ratings RW (%)**
Credit risk					
Government & central banks	63,719.6	3,512.2	5.5	7,672.3	12.0

Table 4

Erste Group Bank AG--Risk Adjusted Capital Framework Data (cont.)					
Of which regional governments and local authorities	4,602.6	343.4	7.5	784.0	17.0
Institutions and CCPs	14,426.5	3,972.5	27.5	2,451.0	17.0
Corporate	83,879.0	55,109.4	65.7	66,515.5	79.3
Retail	85,184.6	22,079.6	25.9	46,301.5	54.4
Of which mortgage	46,552.4	7,795.7	16.7	15,497.8	33.3
Securitization§	1,282.3	88.9	6.9	647.9	50.5
Other assets†	9,761.5	3,428.7	35.1	14,137.8	144.8
Total credit risk	258,253.6	88,191.4	34.1	137,726.2	53.3
Credit valuation adjustment					
Total credit valuation adjustment	--	660.6	--	0.0	--
Market Risk					
Equity in the banking book	1,463.5	3,024.9	206.7	7,666.0	523.8
Trading book market risk	--	3,433.9	--	5,442.7	--
Total market risk	--	6,458.8	--	13,108.7	--
Operational risk					
Total operational risk	--	15,237.5	--	13,064.8	--
	Exposure	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global RWA**	**% of S&P Global Ratings RWA**
Diversification adjustments					
RWA before diversification	--	115,148.3	--	163,899.7	100.0
Total Diversification/ Concentration Adjustments	--	--	--	(8,709.9)	(5.3)
RWA after diversification	--	115,148.3	--	155,189.8	94.7
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		16,516.0	14.3	15,912.9	9.7
Capital ratio after adjustments‡		16,516.0	14.4	15,912.9	10.3

*Exposure at default. §Securitization Exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data, S&P Global Ratings.

Risk position: We expect ongoing sound asset quality despite the softening credit cycle

We also continue to anticipate that Erste's risk position, in combination with our capital assessment, will remain a neutral rating factor. This is on the back of the group's sound asset quality metrics in its diversified loan portfolio, supported by growth mainly in lower-risk countries, materially improved asset quality from reductions in NPLs, and relatively low single-name and sector concentrations in the loan book. Furthermore, we believe our capital model adequately captures Erste's risks of operating in more vulnerable countries than Austria by applying higher risk weights in calculating our RAC ratio.

Risk exposures in the gross loan portfolio of €157 billion as of June 30, 2019 are widely diversified between countries as well as between retail and savings banks clients (about 65% of the loan portfolio) and corporate, group market clients, and ALM (35%). Positively, Erste continues to concentrate on lower-risk retail lending, mortgage loans, and SME and corporate lending, while placing minor emphasis on market-sensitive business. Single-name and sector concentrations in the loan book are low, in our view. Real estate constituted about 19% of the total portfolio on June 30, 2019, but we understand that it is mainly income-producing real estate. Furthermore, we regard risks not fully covered by our capital framework, such as credit spread or interest rate risk in the banking book, as limited.

Erste lowered potential credit risk for the bank from lending in foreign currencies to what we consider manageable levels; this constituted 5.5% of the loan portfolio as of June 30. Swiss franc loans (2.1% of the total portfolio) are primarily booked in Austria, while euro-denominated loans are concentrated in Croatia, Serbia, and Romania. Currency risk for customers, which could translate into credit risk for the bank, is a legacy issue, particularly in Austria and at some subsidiaries.

Erste's asset quality has materially improved over the past two years. NPLs declined to a reported 2.8% at June 30 from a peak of 9.6% in 2013. We expect this positive trend to continue, supported by the further write-offs and sales of its NPL portfolios. In our view, this has led to sustainable stability of Erste's asset quality metrics over the past two years and compares favorably with the main domestic peers Raiffeisen Bank International (and the wider Raiffeisen Banking Group) and UniCredit Bank Austria. We consider the 75% NPL coverage at June 30 adequate and in line with that of peers. The positive development has translated into recent reversals of 6 bps in second-quarter 2019 and 4 bps in 2018, outperforming the peer group; but we expect them to stabilize at 10-12 bps in the next two years.

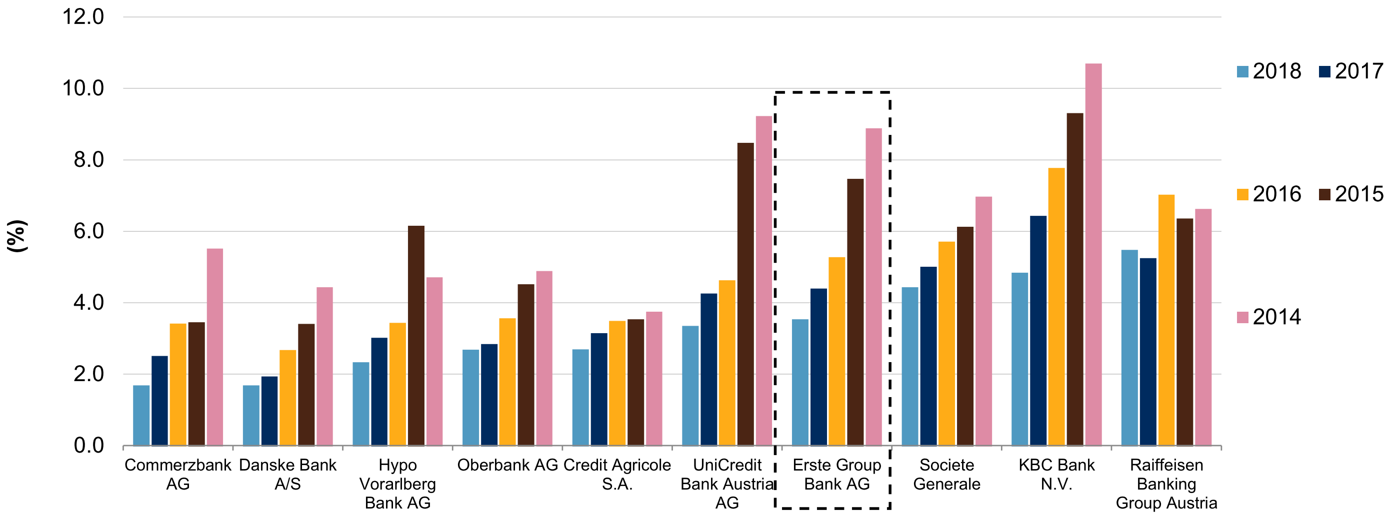
We believe that Erste's risk management is comprehensive and efficient, which is crucial given the bank's wide geographic reach. There are no particularly complex businesses or products, and the bank's governance does not present unusual risk. All the CEE operations are run as stand-alone banks, applying the bank's strategy locally and using groupwide risk tools, risk management standards, and frameworks.

The same rules also apply to Erste's savings bank network in Austria. Although the group owns the majority of only four of the 47 local savings banks, it exercises control over the members of the cross-guarantee system through its majority ownership of the system's management company. The management company has the power to implement and monitor risk policies, as well as intervene if a savings bank were to breach the network's policies.

Chart 6

Positive Development In The NPL Ratio Over The Past Few Years

Erste's NPLs versus European peers



Source: S&P Global Ratings.

Table 5

Erste Group Bank AG--Risk Position

	--Year ended Dec. 31--				
(%)	**2019***	**2018**	**2017**	**2016**	**2015**
Growth in customer loans	7.6	5.5	6.1	2.5	2.8
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	(5.3)	(4.9)	(3.8)	(5.9)
Total managed assets/adjusted common equity (x)	15.8	15.9	15.3	15.7	16.4
New loan loss provisions/average customer loans	(0.1)	(0.0)	0.1	0.1	0.6
Net charge-offs/average customer loans	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Gross nonperforming assets/customer loans + other real estate owned	3.1	3.5	4.4	5.3	7.4
Loan loss reserves/gross nonperforming assets	67.4	64.7	63.4	65.0	61.2

*Data as of June 30. N/A--Not applicable.

Funding and liquidity: Stable and granular customer deposits and ample liquidity at the group level and main operating subsidiaries

We expect Erste to maintain its combined rating strength of a superior funding position and liquidity compared with many banks globally. The group's stability in and through the cycle tested retail funding base, especially in its largest markets in Austria, the Czech Republic, and Slovakia, and its moderate reliance on wholesale funding are particular strengths. This supports a superior liquidity assessment qualitatively and quantitatively based on Erste's actively well-managed and sizable surplus liquidity in its core regions. Accordingly, we expect that the group's main risk indicators of strong consolidated funding and liquidity ratios we observe at the group level remain also evident at the main operating subsidiaries. This is also an absolute view on how well Erste is regionally capable to be able to withstand an extended period of market or idiosyncratic stress.

We expect the group's large retail branch network in Austria and CEE and its intimate relationships with domestic corporate clients will continue to provide it with a stable and granular deposit base (75% of the funding base at June 30, 2019), and with very low single-name concentrations. We expect the indicator of ratio of loans to deposits to remain near current levels (91.5%), which compares very well with peers'. Furthermore, S&P Global Ratings' stable funding ratio for Erste fluctuates around 125% (comfortably above the 95%-115% range that we see for most European peers), reinforcing our above-average assessment.

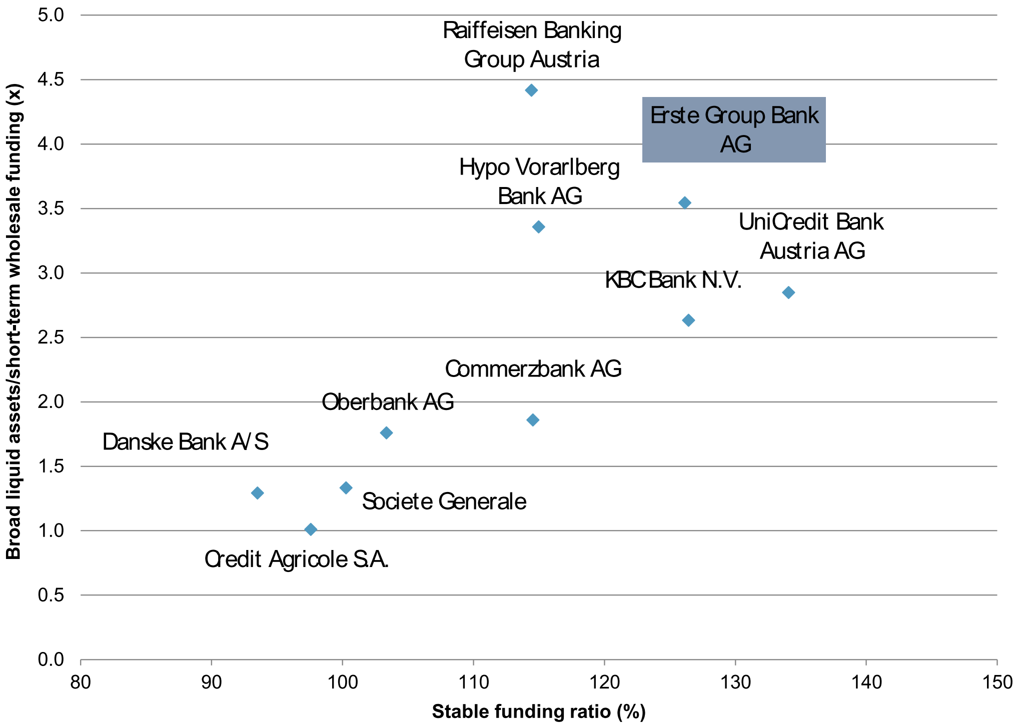
Wholesale funding (which we define as interbank, unsecured, and secured issues) accounts for about one-quarter of the group's total funding (25% as of June 30, 2019). Therefore, Erste's reliance on investor-sensitive wholesale funding is moderate and new market funding needs for 2019 were fulfilled by June 30 already. We also view as manageable the €2 billion-€3 billion yearly repayments of debt securities given the group's strong funding profile.

Our assessment of Erste's liquidity as strong primarily reflects the bank's ongoing prudent liquidity management and high liquidity reserves. S&P Global Ratings' liquidity ratio, which shows coverage of short-term wholesale funding by broad liquid assets, was high at 3x at June 30, 2019. Our liquidity ratios at the group level and main subsidiaries are stronger than those of the overwhelming majority of domestic and large European peers with 1x-2x ratios. These metrics reflect the structural strengths of Erste's deposit-heavy funding profile, which is also supported by a strong 36% of net broad liquid assets-to-short-term customer deposits at June 30 (which measures liquid asset coverage of deposits even after a run-off of short-term wholesale funding). In addition, we view as a strength management's policy of maintaining ample buffers of unencumbered high-quality securities eligible for refinancing by the European Central Bank. As of June 30, the liquidity buffer (defined as unencumbered collateral plus cash) stood at €71.1 billion or 39% of total liabilities.

We believe that there has been an overall improvement in the funding profiles in Erste's network banks, demonstrated by a marked reduction of intragroup funding from the parent bank over the past five years that exceeded our expectations. We now see each network bank as being able to deal with liquidity stresses on its own, which we consider a critical factor given the restrictions on intra-group liquidity transfers. In our view, Erste and its main operating subsidiaries would likely benefit from customers' flight to quality in a financial crisis and liquidity coverage would buffer against a lack of access to wholesale funding for more than 12 months, as well as moderate reductions in customer deposits.

Chart 7

Key Funding And Liquitdiy Metrics, Year-End 2018



Source: S&P Global Ratings.

Table 6

Erste Group Bank AG--Funding And Liquidity

	--Year ended Dec. 31--				
(%)	**2019***	**2018**	**2017**	**2016**	**2015**
Core deposits/funding base	74.7	76.5	77.7	76.4	74.1
Customer loans (net)/customer deposits	93.0	91.8	93.1	94.8	98.7
Long-term funding ratio	89.7	91.5	92.6	92.4	91.7
Stable funding ratio	125.6	126.1	127.9	125.2	120.4
Short-term wholesale funding/funding base	11.2	9.2	8.1	8.3	8.9
Broad liquid assets/short-term wholesale funding (x)	3.0	3.5	4.1	3.9	3.3
Net broad liquid assets/short-term customer deposits	36.5	37.3	44.6	41.8	41.7
Short-term wholesale funding/total wholesale funding	43.0	38.5	35.4	34.7	34.3

*Data as of June 30.

External support: No uplift for government support or ALAC

We continue to view Erste group as having high systemic importance in Austria, but we assess the sovereign'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.

Our view of uncertain extraordinary government support for the Austrian banking sector follows the country's full implementation of the EU Bank Recovery and Resolution Directive, including bail-in powers, in January 2015.

We view the Austrian resolution regime as effective because, among other factors, we believe it contains a well-defined bail-in process under which authorities would permit nonviable systemically important banks to continue critical functions as going concerns following a bail-in of eligible liabilities.

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. On this basis, we calculate that the ALAC proportion of risk-weighted assets was just surpassing the adjusted threshold of 5.5% at year-end 2018 and we project in the next two years this buffer will remain at 4.5%-5.5%, our adjusted threshold of risk-weighted assets for a one-notch uplift. This will principally be on the back of a small rise in total adjusted capital beyond that taken into account in our capital assessment and a rollover of existing capital instruments. We use an adjusted threshold for the group, as opposed to the usual 5.0%, because we anticipate that Erste will have to deploy substantial ALAC--primarily consisting of excess core capital--in its CEE subsidiaries and we see fungibility of these resources as constrained by capital restrictions set by host regulators. We expect to have more clarity on Erste's ALAC buffer, and the ramp up period needed to create an efficient MPE resolution regime after the Austrian regulators announced their MREL requirements for individual banks, which we expect to happen by mid-year 2020.

Additional rating factors: We expect Ceska to remain well-managed core subsidiary

Ceska Sporitelna A.S., second-largest bank in the Czech Republic in terms of total assets, is Erste's largest subsidiary outside Austria. We continue to expect that it remains a core subsidiary of Erste, because it plays an integral role in the group's strategy in the CEE. However, the core status does not translate into additional notches of support given our assessment of Ceska's stand-alone credit profile (SACP) is at the same level as Erste's GCP. We continue to monitor developments and implications for our ALAC notching approach in the light of Erste's evolving MPE resolution strategy, and considering Ceska to be a prudentially regulated subsidiary, which, under our base-case scenario, we expect would be subject to a separate resolution from its parent. That said, Erste is 100% shareholder of Ceska after the squeeze-out in 2018, and the only investor in Ceska's AT1 instruments, which we expect to fulfil Ceska's potential future MREL requirements (minimum requirement for own funds and eligible liabilities) for now.

Ratings on hybrid instruments

We rate Erste's nondeferrable subordinated debt instruments at 'BBB+', two notches below the bank's SACP, reflecting the debt's contractual subordination as Tier 2 instruments and our view that BRRD creates the equivalent of a contractual write-down clause.

We rate Erste's additional Tier 1 instruments at 'BBB-', four notches lower than the SACP, reflecting our deduction of:

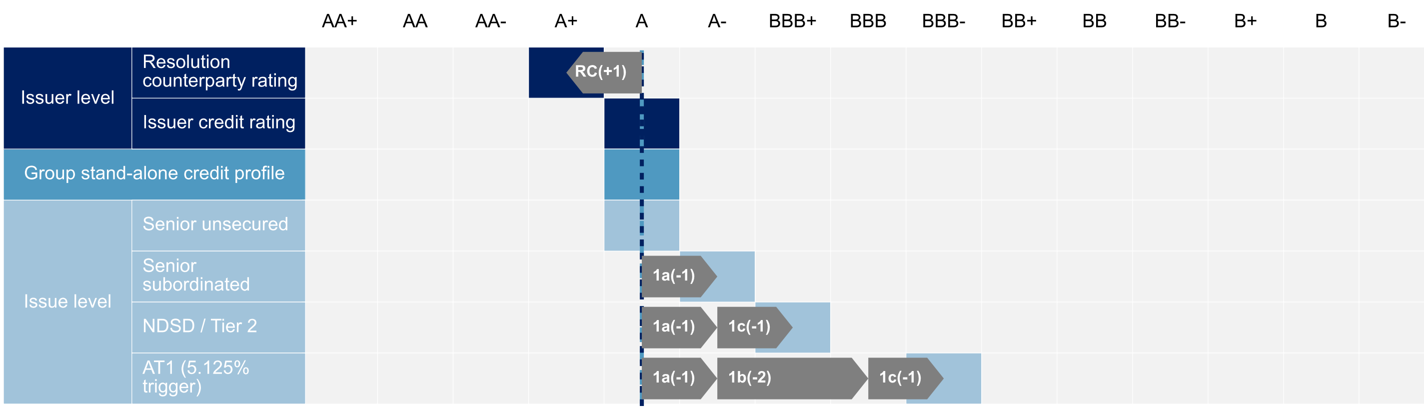
- One notch for contractual subordination;
- Two notches for the notes' status as Tier 1 regulatory capital; and
- One notch because the instruments allow for the full or partial temporary write-down of the principal amount.

Resolution counterparty ratings (RCRs)

We set the RCRs on Erste 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.

An RCR is a forward-looking opinion of the relative default risk of certain senior liabilities that may be protected from default through an effective bail-in resolution process for the issuing financial institutions. RCRs apply to issuers in jurisdictions where we assess the resolution regime to be effective and we consider the issuer likely to be subject to a resolution that entails a bail-in if it reaches nonviability.

Erste Group Bank AG: Notching



Key to notching

- - - - - Group stand-alone credit profile

- - - - - Issuer credit rating

RC Resolution counterpartyliabilities (senior secured debt)

1a Contractual subordination

1b Discretionary or mandatory nonpayment clause and whether the regulator classifies it as regulatory capital

1c Mandatory contingent capital clause or equivalent

Note: The number-letter labels in the table above are in reference to the notching steps we apply to hybrid capital instruments, as detailed in table 3 of our “Hybrid Capital: Methodology And Assumptions” criteria, published on July 1, 2019.
AT1--Additional Tier 1. NDSD--Non-deferrable subordinated debt.

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: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating 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 December 2, 2019)*

Erste Group Bank AG	
Issuer Credit Rating	A/Positive/A-1
Resolution Counterparty Rating	A+/--/A-1
Commercial Paper	
Local Currency	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

Ratings Detail (As Of December 2, 2019)*(cont.)	
17-May-2016	BBB+/Stable/A-2
09-Jun-2015	BBB+/Negative/A-2
03-Feb-2015	A-/Watch Neg/A-2
Sovereign Rating	
Austria	AA+/Stable/A-1+
Related Entities	
Erste Group Bank AG (Hong Kong Branch)	
Commercial Paper	A-1

*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.

Additional Contact:
Financial Institutions Ratings Europe; FIG_Europe@spglobal.com