



Fitch Affirms Erste Group Bank AG at 'A'; Outlook Stable Ratings

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Fitch Ratings-London-23 December 2010: Fitch Ratings has affirmed Austria-based Erste Group Bank AG's (Erste) ratings at Long-term Issuer Default (IDR) 'A', Short-term IDR 'F1', Individual 'C', Support '1' and Support Rating Floor 'A'. A full listing of the rating actions can be found at the end of the commentary.

The ratings of Erste, except its Individual Rating, reflect Fitch's opinion that there is an extremely high probability of support - if ever required - from the Austrian authorities given the entity's systemic importance. The Long-term IDR is at the Support Rating Floor. The Stable Outlook mirrors that on the Republic of Austria (rated 'AAA'/Stable/'F1+').

The Individual Rating reflects the bank's exposure to some challenging markets in central eastern Europe (CEE) and weaker asset quality driving loan impairment charges (LICs). This is balanced by its sound franchises in retail and SME banking, adequate loss absorption capacity and improving capitalisation.

Erste maintained its net interest revenues despite a low interest rate environment and subdued loan growth. Re-pricing of existing loans, lower funding costs and higher spreads on new lending lifted its net interest margin. Net fee income has been resilient due to robust activity in payment transactions and domestic securities. In Fitch's opinion, medium-term economic growth prospects in some of Erste's core markets remain attractive, providing a resilient source of earnings.

Operating performance in 9M10 remained adversely affected by high LICs. For 2010, LICs are unlikely to be materially below the 2009 level. Lower LICs, which will be key to profits in 2011/12, may be possible due to more favourable operating conditions. Conditions in the Romanian and Hungarian banking sectors remain adverse; but those in the Czech Republic (CZ), Slovakia and Austria appear to have stabilised.

At end-9M10, 91% of loans related to EU member states; around 45% of loans were related to CEE. Impaired loans rose to 7.6% at end-9M10, mainly driven by Austria, Romania and CZ. Low loan growth could result in a higher NPL ratio, but the growth of NPLs appears to have slowed. Reserve coverage improved to 62% from 58% at end-2009. In Fitch's view, Erste's exposure to the construction and real estate sectors is high relative to peers, particularly as these sectors are more vulnerable in the current credit cycle. Market risk arises from interest rate sensitivity.

Retail deposits are a key source of stable funding. Like other banks, Erste issued government-guaranteed bonds in 2009. Short-term wholesale funding is being actively reduced.

Capitalisation improved to satisfactory levels after the bank issued EUR1.76bn of participation capital, followed by a similar amount of equity. Strengthened earnings should improve internal capital generation. A pro-forma Basel III common equity ratio without deducting minorities held in the cross-guarantee scheme would have been around 7% at end-H110.

Summary of rating action:

Long-term Issuer Default Rating: affirmed at 'A'; Outlook Stable

Short-term IDR: affirmed at 'F1'

Individual rating: affirmed at 'C'

Support rating: affirmed at '1'

Support Rating Floor: affirmed at 'A'

Subordinated debt: affirmed at A-

Upper tier 2 instruments: affirmed at 'BBB-'

EUR6bn guaranteed debt issuance programme: affirmed at 'AAA' and 'F1+'

Erste Finance (Jersey) Ltd.: affirmed at 'BBB-'

Erste Finance (Delaware) LLC: USD10bn commercial programme, guaranteed by Erste: affirmed at 'F1'

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Additional information is available at www.fitchratings.com.

Applicable criteria, 'Global Financial Institutions Rating Criteria', dated 16 August 2010 and 'Short-Term Ratings Criteria for Corporate Finance' dated 2 November 2010 are available on www.fitchratings.com.

Applicable Criteria and Related Research:

Global Financial Institutions Rating Criteria
Short-Term Ratings for Corporate Finance

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