

Fitch Affirms Major Austrian Banks at 'A'; Upgrades Three Individual Ratings

24 May 2011 8:15 AM (EDT)

Fitch Ratings-London-24 May 2011: Fitch Ratings has affirmed Erste Group Bank AG's (Erste), Raiffeisen Bank International AG's (RBI), UniCredit Bank Austria AG's (Bank Austria) and Volksbanken Verbund's (VB-Verbund) Long-term Issuer Default Ratings (IDR) at 'A' with Stable Outlooks. At the same time, Fitch has upgraded Erste's Individual Rating to 'B/C' from 'C' and RBI's and Bank Austria's Individual Ratings to 'C' from 'C/D'. VB-Verbund's Individual Rating has been affirmed at 'C/D'. A full list of rating actions is at the end of this comment.

The upgrade of Erste's, RBI's and Bank Austria's Individual Ratings reflects the banks' continued resilient financial performance in a still challenging operating environment, notably in Central and Eastern Europe, Turkey (in the case of Bank Austria) and the Commonwealth of Independent States (combined: CEE), their largely successful efforts to contain further asset quality deterioration and the three banks' adequate funding profiles. However, their Individual Ratings also consider Fitch's expectation that impaired loans in some CEE markets have yet to peak and - in the case of Erste and notably RBI - the banks' only modest capitalisation if the forthcoming repayment of government participation capital and preparations for Basel III are taken into account.

The affirmation of VB-Verbund's Individual Rating at 'C/D' reflects Fitch's view that VB-Verbund's earnings generation capacity and capitalisation has disproportionately suffered in the past three years and that the bank will have to make structural changes in the short- to medium-term to ensure that capitalisation remains adequate.

The four banks' Long-term IDRs remain on their Support Rating Floors and hence continue to be underpinned by Fitch's view of the availability of sovereign support. Given the banks' dominant domestic market shares and importance for the Austrian economy, Fitch believes that there is an extremely high probability that support from the Austrian authorities for the banks would be forthcoming if needed. Moreover, in Fitch's opinion any potential sovereign support would also be available to support the banks' core CEE operations and would hence not be limited to its Austrian operations. Although resolution regimes or similar legislative changes are currently not being widely discussed in Austria, should the propensity of the Austrian government to support its major banks weaken or become constrained by legislative changes, then this would - with the exception of Bank Austria - result in downgrades of banks' Support Ratings and Long-term IDRs. In the case of Bank Austria, its Long-term IDR would continue to be equalised with that of its parent, UniCredit S.p.A. ('A'/ Stable).

Compared to its peers, Erste's Individual Rating benefits from its relatively stable performance indicators over the last five years, its strong presence in comparatively better performing economies (Czech Republic, Slovakia) and its solid local retail deposit franchise. Conversely, RBI and Bank Austria have higher credit exposure to underperforming economies like Ukraine and - in the case of Bank Austria - Kazakhstan, which exposes the banks to higher volatility regarding loan impairment charges and/or goodwill write-downs.

Fitch expects the banks' positive performance trajectory to continue in 2011 as operating revenue should remain resilient, operating expenses remain well-controlled and loan impairment charges continue to stabilise or fall. However, the agency also notes that the economic recovery in certain CEE markets, including Hungary, Croatia and Romania, is still fragile and represents considerable downside risk for the banks' performance in 2011. VB-Verbund's earnings generation capacity is weaker than peers and would be reduced further if the CEE subsidiary (Volksbank International AG) of its central institution, Oesterreichische Volksbanken-Aktiengesellschaft (VBAG) were to be sold, as announced in late-2010.

Mirroring the continued challenging operating environment in some CEE markets, the banks' asset quality continued to worsen during 2010 and impaired loans ratios at end-2010 ranged from around 8% at Erste, 9% at RBI and Bank Austria and 12% at VBAG. Loan loss coverage ratios at end-2010 were adequate (Erste: 58%, RBI: 66%, Bank Austria: 52%, VBAG: 54%). While asset quality indicators of Austrian banks are mediocre in international comparison, the banks' solid pre-impairment profitability should allow the banks to absorb further asset quality deterioration relatively comfortably.

Erste, Bank Austria and to a lesser extent VB-Verbund possess sound customer deposit franchises in Austria. RBI's and VBAG's customer deposits relate to their CEE operations. Due to limited loan growth in Austria and

CEE, the wholesale funding requirements of all banks have fallen since 2008 but are prone to increase once lending to CEE customers picks up again. Since 2009, Erste, RBI and VBAG have obtained funding and capital support from the Austrian government. As a result of the latter, the banks' total Tier 1 ratios have improved and compare adequately with international peers. However, Erste's, RBI's and notably VB-Verbund's capital structures contain a large proportion of non-core Tier 1 capital (as defined by Fitch) and at end-2010, Tier 1 capital ratios excluding government participation capital for RBI (around 7.8%) and notably VBAG (5.8%) were relatively low in international comparison.

The rating actions are as follows:

Erste Group Bank AG

Long-term IDR affirmed at 'A', Outlook Stable
Short-term IDR affirmed at 'F1'
Support Rating affirmed at '1'
Support Rating Floor affirmed at 'A'
Individual Rating upgraded to 'B/C' from 'C'
Lower Tier 2 notes affirmed at 'A-'
Upper Tier 2 notes affirmed at 'BBB-'
Government guaranteed notes affirmed at 'AAA'

Erste Finance (Jersey) Ltd.

Preferred stock affirmed at 'BBB-'

Erste Finance (Delaware) LLC

Commercial paper Short-term rating affirmed at 'F1'

Raiffeisen Bank International AG

Long-term IDR affirmed at 'A', Outlook Stable
Short-term IDR affirmed at 'F1'
Support Rating affirmed at '1'
Support Rating Floor affirmed at 'A'
Individual Rating upgraded to 'C' from 'C/D'

UniCredit Bank Austria AG

Long-term IDR affirmed at 'A', Outlook Stable
Short-term IDR affirmed at 'F1'
Support Rating affirmed at '1'
Support Rating Floor affirmed at 'A'
Individual Rating upgraded to 'C' from 'C/D'

Volksbanken Verbund

Long-term IDR affirmed at 'A', Outlook Stable
Short-term IDR affirmed at 'F1'
Support Rating affirmed at '1'
Support Rating Floor affirmed at 'A'
Individual Rating affirmed at 'C/D'

Oesterreichische Volksbanken-Aktiengesellschaft (VBAG; VB-Verbund's central institution)

Long-term IDR affirmed at 'A', Outlook Stable
Short-term IDR affirmed at 'F1'
Support Rating affirmed at '1'
Support Rating Floor affirmed at 'A'
Government guaranteed bonds affirmed at 'AAA'
Market Linked Securities affirmed at 'Aemr'

The ratings of the other VB-Verbund member banks have been affirmed at Long-term IDR 'A' with Stable Outlook and Short-term IDR 'F1'. The full list of VB-Verbund member banks (in addition to VBAG) is as follows:

Bank fuer Aerzte und freie Berufe AG

Volksbank Weinviertel e.Gen.
VOLKSBANK OBERES WALDVIERTEL rGmbH
Gaertnerbank, rGmbH
Volksbank Tullnerfeld eG
Volksbank Bad Goisern eingetragene Genossenschaft

Volksbank Osttirol rGmbH
Volksbank Oetscherland eG
Volksbank Fels am Wagram e.Gen.
Volksbank Krems-Zwettl AG
Volksbank Laa eGen
Volksbank Marchfeld e.Gen.
Volksbank, Gewerbe- und Handelsbank Kaernten AG
VOLKSBANK fuer den Bezirk Weiz rGmbH
Volksbank Tirol Innsbruck-Schwaz AG
Volksbank Altheim-Braunau rGmbH
Volksbank Feldkirchen, rGmbH
Volksbank Schaerding eG
Volksbank Steirisches Salzkammergut, rGmbH
VOLKSBANK BADEN e.Gen.
VOLKSBANK OBERKAERNTEN rGmbH
VOLKSBANK VOECKLABRUCK-GMUNDEN e.Gen.
Volksbank Wien AG
Volksbank Enns- und Paltental rGmbH
Volksbank Bad Hall e.Gen.
Volksbank Linz-Wels-Muehlviertel AG
Volksbank Gmuend eingetragene Genossenschaft
Allgemeine Bausparkasse rGmbH
Volksbank Alpenvorland e.Gen.
Waldviertler Volksbank Horn rGmbH
Volksbank Ost rGmbH
Volksbank Kufstein eG
Volksbank Ried im Innkreis eG
Volksbank Enns-St. Valentin eG
Volksbank Friedburg rGmbH
Oesterreichische Apothekerbank eG
Volksbank Voecklamarkt-Mondsee rGmbH
Volksbank Gailtal eG
Volksbank Niederoesterreich Sued eG
Volksbank Oberndorf rGmbH
Volksbank Obersdorf-Wolkdersdorf-Deutsch-Wagram e.Gen.
VOLKSBANK GRAZ-BRUCK e.Gen.
Volksbank Muerztal-Leoben e.Gen
Volksbank Eferding-Grieskirchen rGmbH
Volksbank fuer die Sued- und Weststeiermark rGmbH
Volksbank Donau-Weinland rGmbH
Wiener Spar- und Kreditinstitut rGmbH
Volksbank Salzburg eG
Volksbank Almtal e.Gen.
VOLKSBANK VORARLBERG e.Gen.
VOLKSBANK LANDECK eG
Volksbank Aichfeld-Murboden rGmbH
SPARDA-BANK VILLACH/INNSBRUCK rGmbH
Volksbank Kaernten Sued e.Gen.
IMMO-BANK AG
Volksbank Niederoesterreich-Mitte e.G.
Volksbank Sued-Oststeiermark e.Gen.
Volksbank Suedburgenland rGmbH
SPARDA-BANK LINZ rGmbH
VB Factoring Bank AG
Volksbank-Quadrat Bank AG

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Applicable criteria, "Global Financial Institution Criteria" dated 16 August 2010; "Rating Hybrid Securities" dated 29 December 2009; 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
Rating Hybrid Securities
Short-Term Ratings Criteria for Corporate Finance — Amended

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