

FITCH PLACES ERSTE'S VIABILITY RATING OF 'A-' ON WATCH NEGATIVE; AFFIRMS IDR AT 'A'

Fitch Ratings-London-11 October 2011: Fitch Ratings has placed Erste Group Bank AG's (Erste) Viability Rating (VR) of 'a-' on Rating Watch Negative (RWN). The ratings for Erste's upper Tier 2 notes have also been placed on RWN. Erste's remaining ratings have been affirmed at Long-term Issuer Default Rating (IDR) 'A' with Stable Outlook, Short-term IDR 'F1', Support Rating '1' and Support Rating Floor 'A'. A full list of ratings is at the end of this comment.

The rating actions follow yesterday's announcement by Erste that it will report a significant net loss for Q311 and FY2011 as a result of sizeable goodwill impairment charges, considerable loan impairment charges (LIC) on its Hungarian exposure, a reclassification of its CDS protection sold portfolio and accounting changes relating to effective interest rate calculations in some of its Central and Eastern European (CEE) subsidiaries. Simultaneously, Erste announced that it will postpone the repayment of EUR1.24bn government participation capital by at least one year and that it will not pay a dividend for FY2011. It will, however, according to management continue to pay coupons on all hybrid capital and subordinated notes.

The RWN on Erste's VR primarily reflects Fitch's concerns about Erste's underlying profitability amidst a challenging operating environment in several CEE markets, particularly Hungary and Romania. In particular, the additional LICs in Hungary suggest a weakening of Erste's financial profile. Still, several of the announced measures, notably the goodwill impairment charges, the accounting changes and the CDS reclassification, are not a direct reflection of Erste's current financial performance. Erste expects to return to profitability in Q411.

Since the majority of the announced charges relate to goodwill impairment, the impact on Erste's regulatory Tier 1 ratio is with around 60bps manageable and management expects its Tier 1 ratio at end-2011 to remain unchanged y-o-y (9.2%). Nonetheless, it represents a set-back in Erste's efforts to improve its core capitalisation in preparation for a repayment of the government participation capital and Basel III implementation.

Fitch will resolve the RWN once it has assessed in more detail the current trends of Erste's underlying profitability and capital generation capacity in the increasingly difficult operating environment. In its assessment Fitch will in particular consider developments in asset quality, funding costs and additional capital needs of its network of CEE subsidiaries.

Erste's IDRs, Support Rating and Support Rating Floor continue to be based on Fitch's opinion that Erste would receive support from the Austrian authorities if required. Fitch has repeatedly stated that it expects sovereign support for banks to weaken in many developed economies. Should Fitch change its view about the propensity of the Austrian authorities to provide support for Erste and other major Austrian banks, then this would lead to downward pressure on Erste's IDRs, Support Rating and Support Rating Floor.

Erste continues to benefit from dominant franchises in stable and well-performing economies (notably Austria, the Czech Republic and Slovakia) and an adequate funding profile with limited reliance on wholesale funding sources. It is Austria's largest bank by assets and focuses on retail and SME banking. It is one of the key investors in CEE and acts as central institution for Austrian savings banks.

The rating actions are as follows:

Erste Group Bank AG

Long Term Issuer Default Rating: Affirmed at 'A'; Outlook Stable

Short Term IDR: Affirmed at 'F1'

Viability Rating of 'a-': Placed on Rating Watch Negative (RWN)
Individual Rating of 'B/C': Placed on RWN
Support Rating: Affirmed at '1'
Support Rating Floor: Affirmed at 'A'
Government guaranteed notes: Affirmed at 'AAA'; 'F1+'
Commercial paper: Affirmed at 'F1'
Lower tier 2 notes: Affirmed at 'A-'
Upper tier 2 of 'BBB-': Placed on RWN

Contact:

Primary Analyst
Christian Kuendig
Director
+44 20 3530 1399
Fitch Ratings Limited
30 North Colonnade
London E14 5GN

Secondary Analyst
Anna Deineko
Analyst
+44 20 3530 1538

Committee Chairperson
Gerry Rawcliffe
Managing Director
+44 20 3530 1332

Media Relations: Michelle James, London, Tel: +44 0203 530 1574, Email: Michelle.James@fitchratings.com.

Additional information is available on www.fitchratings.com.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings

Applicable criteria, "Global Financial Institutions Rating Criteria", dated 16 August 2011, are available at www.fitchratings.com.

Applicable Criteria and Related Research:

Global Financial Institutions Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=649171

Erste Group Bank AG

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=539979

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