

## **FITCH AFFIRMS MAJOR AUSTRIAN BANKS AT 'A'/STABLE; AFFIRMS VRS**

Fitch Ratings-London/Paris/Barcelona-30 November 2012: 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'. The Outlook on all Long-term IDRs remains Stable.

In addition, the agency has affirmed the Viability Ratings (VR) of Erste at 'a-', RBI at 'bbb', Bank Austria at 'bbb+' and VB-Verbund at 'bb-'. A full list of rating actions is at the end of this rating action commentary.

### **RATING ACTION RATIONALE - IDRs, Support Ratings and Support Rating Floors**

The affirmation of the banks' IDRs at their Support Rating Floor of 'A' reflects Fitch's opinion that it is extremely likely that the four banks would receive support from the Austrian authorities if required given their systemic importance for the Austrian financial sector and the Austrian economy.

All four banks have meaningful domestic deposit market shares, ranging from 7% at VB-Verbund to 19% at Erste. RBI itself does not have a large domestic deposit franchise but is an integral part of Raiffeisen Banking Group (RBG), Austria's largest banking group.

Fitch has also affirmed VB-Verbund's central institution, Oesterreichische Volksbanken Aktiengesellschaft AG's (OeVAG) Long-term IDR at 'A'. VB-Verbund is not a legal entity itself but a cooperative grouping of member banks, including OeVAG. As such, Fitch has assigned OeVAG "group" ratings under Fitch's rating criteria for banking structures backed by mutual support mechanisms. Fitch does not assign a VR to OeVAG.

The Stable Outlook on the banks' IDR mirrors the Stable Outlook on Austria's 'AAA' sovereign rating, last affirmed on 9 November 2012.

### **RATING ACTION RATIONALE - VRs**

Erste's, RBI's and Bank Austria's VRs reflect the banks' broad regional diversification in Central and Eastern Europe (CEE), mitigating negative developments in single markets, solid pre-impairment profitability and improved funding and capital positions. The VRs also take into account still worsening asset quality in many CEE countries - albeit at a slower pace than in 2009/2010. In addition, the VR reflects contracting core revenues, largely due to continued sluggish loan growth in CEE and pressure on the banks' net interest margin (NIM), a trend which is however partly mitigated by the banks' renewed focus on cost management..

Erste's credit exposure to and revenue from more stable markets like Austria, the Czech Republic and Slovakia account for a higher proportion of the total compared to peers. Moreover, Erste's loan book is more granular and better diversified by sectors than those of its peers. In addition, Erste's deposit franchises in these three markets, notably in the Czech Republic, are strong which benefits the bank's overall balance sheet liquidity. All these factors support Erste's VR (at 'a-') which remains higher than the VRs of both Bank Austria ('bbb+') and RBI ('bbb').

RBI's VR is based on the bank's sound domestic corporate lending franchise, solid pre-impairment profitability and ample - albeit narrowing - net interest margin which benefits from RBI's regional diversification. The bank's VR also takes into account RBI's high proportion of participation capital in its capital base and consequently its below-average Fitch core capital ratio.

Bank Austria's VR reflects a geographically well-diversified revenue base, resilient operating profitability despite a still fragile operating environment in much of CEE and adequate core

capitalisation. The VR also takes into account Bank Austria's still-deteriorating asset quality and sizeable CEE net funding needs.

VB-Verbund's VR reflects the progress made in repositioning the group to focus on domestic retail operations. It disposed of several of its riskier assets in 2011 and during H112, notably its CEE operations (excluding VB Romania) and some real estate activities. VB-Verbund's asset base is now of acceptable quality, and lumpy loan and securities impairments observed in the past are now less likely. The exception to this is VB Romania, where asset quality could potentially deteriorate although restructuring efforts are currently underway.

#### RATING DRIVERS AND SENSITIVITIES - IDRs, Support Ratings and Support Rating Floors

A weakened ability by the Austrian state to support its large banks (signalled by a change in the sovereign rating) or lower willingness to provide support (e.g., as a result of legislative changes) could lead to a downgrade of the banks' support-driven ratings.

Fitch has stated that it expects sovereign support for banks to weaken over time in many developed economies. If the agency changes its view about the propensity of the Austrian authorities to provide support for major Austrian banks, this would lead to downward pressure on the banks' IDRs, Support Rating and Support Rating Floor.

#### RATING DRIVERS AND SENSITIVITIES - VRs

Erste's, RBI's and Bank Austria's VRs are predominantly sensitive to worse-than-expected asset quality deterioration in CEE and to a lesser extent in their Austrian home market. Fitch expects non-performing loan ratios in most CEE markets to peak in late 2013 and the banks' VRs are sensitive to this view. A further contraction of the banks' NIM, either due to increasing funding costs or inability to continue re-pricing their asset base, significantly affecting their earnings base, would also be negative for the banks' VRs.

In addition, Erste's VR remains sensitive to macroeconomic developments in some of its currently underperforming key markets, notably Romania, Hungary and Croatia where Erste's proportion of lending exposure is higher than peers.

RBI's VR is currently constrained by the below-average quality of its capital base which includes a considerable share of government (EUR1.75bn) and commercial (EUR0.75bn) hybrid (participation) capital. Consequently, a sustained improvement of RBI's Fitch Core Capital ratio could lead to an upgrade of RBI's VR. RBI is more exposed to CEE markets than its domestic peers (with CEE loans accounting for around 71% of total loans at end-Q312) and is therefore disproportionately sensitive to developments in CEE.

In addition to the VR sensitivities described above, Bank Austria's VR could be affected by a significant downgrade of the VR of its parent bank, UniCredit S.p.A. (UniCredit, 'A-'/Negative/'a-'). Due to Bank Austria's close operational integration into UniCredit, a significant deterioration at UniCredit, which Fitch does currently not consider likely, could ultimately also affect Bank Austria, e.g. through intragroup lending transactions.

VB-Verbund's VR is primarily sensitive to further significant extraordinary capital measures during OeVAG's restructuring process. Additional external capital support measures or the inability to repay government participation and common share capital over time would be negative for the ratings. In addition, should the deleveraging process (including its Romanian operations) result in material losses for the group, then VB-Verbund's VR could be downgraded.

The VR could be upgraded if the 'new' VB-Verbund successfully repositions itself to focus primarily on domestic retail operations whilst avoiding material credit losses. Clear sustainable improvements in the group's capital and financial positions would also be ratings-positive.

A report entitled '2013 Outlook: Austrian Banks' will be published in the coming weeks.

#### SUBORDINATED DEBT AND OTHER HYBRID SECURITIES

Subordinated debt and other hybrid capital issued by Erste are all notched down from the VRs of

Erste in accordance with Fitch's assessment of each instrument's respective non-performance and relative loss severity risk profiles, which vary considerably. Their ratings are primarily sensitive to any change in the VR of Erste.

#### GOVERNMENT-GUARANTEED DEBT

Government-guaranteed debt ratings are sensitive to changes in the Republic of Austria's sovereign rating ('AAA'/Stable).

The rating actions are as follows:

##### Erste Group Bank AG

Long-term IDR: affirmed at 'A'; Outlook Stable

Short-term IDR: affirmed at 'F1'

Viability Rating: affirmed at 'a-'

Support Rating: affirmed at '1'

Support Rating Floor: affirmed at 'A'

Senior unsecured notes: affirmed at 'A'/'F1'

Lower Tier 2 debt: affirmed at 'BBB+'

Upper Tier 2 debt: affirmed at 'BBB-'

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

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

##### Raiffeisen Bank International AG

Long-term IDR: affirmed at 'A'; Outlook Stable

Short-term IDR: affirmed at 'F1'

Viability Rating: affirmed at 'bbb'

Support Rating: affirmed at '1'

Support Rating Floor: affirmed at 'A'

##### UniCredit Bank Austria AG

Long-term IDR: affirmed at 'A'; Outlook Stable

Short-term IDR: affirmed at 'F1'

Viability Rating: affirmed at 'bbb+'

Support Rating: affirmed at '1'

Support Rating Floor: affirmed at 'A'

Senior unsecured notes: affirmed at 'A'

##### Volksbanken Verbund

Long-term IDR: affirmed at 'A'; Stable Outlook

Short-term IDR: affirmed at 'F1'

Viability Rating: affirmed at 'bb-'

Support Rating: affirmed at '1'

Support Rating Floor: affirmed at 'A'

##### OeVAG

Long-term IDR: affirmed at 'A'; Stable Outlook

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'

Senior unsecured notes: affirmed at 'A'/'F1'

The other VB-Verbund member banks' Long-term IDRs have been affirmed at 'A' with Stable Outlook and Short-term IDRs at 'F1'. These ratings are "group" ratings assigned under Fitch's rating criteria for banking structures backed by mutual support mechanisms and are sensitive to a downgrade of VB-Verbund's Support Rating Floor. The full list of VB-Verbund member banks 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-Wolkersdorf-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  
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

Contact:

Christian Kuendig (Primary Analyst for Erste, Bank Austria and RBI, Secondary Analyst for VB-Verbund)

Senior Director

+44 20 3530 1399

Fitch Ratings Limited

30 North Colonnade

London E14 5GN

Anna Deineko (Primary Analyst for VB-Verbund, Secondary Analyst for Bank Austria and RBI)  
Analyst

+44 20 3530 1538

Fitch Ratings Limited

30 North Colonnade

London E14 5GN

Erwin van Lumich (Secondary Analyst for Erste)

Managing Director

+34 93 323 8403

Committee Chairperson

Olivia Perney Guillot

Senior Director

+ 33 1 44 29 91 74

Media Relations: Hannah Huntly, London, Tel: +44 20 3530 1153, Email: hannah.huntly@fitchratings.com.

Additional information is available on [www.fitchratings.com](http://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 15 August 2012, and 'Rating Criteria for Banking Structures Backed by Mutual Support Mechanisms', dated 11 April 2012, are available at [www.fitchratings.com](http://www.fitchratings.com).

Applicable Criteria and Related Research:

Global Financial Institutions Rating Criteria

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=686181](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686181)

Rating Criteria for Banking Structures Backed by Mutual Support Mechanisms

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=666999](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=666999)

Rating Bank Regulatory Capital and Similar Securities

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=656371](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=656371)

Austria

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=693833](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=693833)

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](http://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE 'WWW.FITCHRATINGS.COM'. PUBLISHED RATINGS, CRITERIA AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF

INTEREST, AFFILIATE FIREWALL, COMPLIANCE AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION OF THIS SITE.