

Rating Action: Erste Group Bank AG

Moody's downgrades Erste Group Bank AG's BFSR to C-; confirms long-term ratings at Aa3

BFSR and long-term ratings carry negative outlook

Frankfurt, April 01, 2009 -- Moody's Investors Service has today downgraded the bank financial strength rating (BFSR) of Erste Group Bank AG ("Erste Group Bank") to C- (mapping to a Baseline Credit Assessment "BCA" of Baa2) from C (BCA of A3) and changed the outlook on the BFSR to negative. The Aa3 long-term senior debt and deposit ratings were also confirmed with a negative outlook. The outlook on the A1 rating of Erste Group Bank's subordinated debt and the A2 ratings on hybrid capital securities was subsequently also changed to negative from stable. The Prime-1 short-term deposit rating was affirmed. Today's rating actions conclude a review on Erste Group Bank initiated on 11 December 2008.

The rating actions reflect Moody's expectation that the persistent turmoil in international capital markets is likely to have a worsening negative impact on the economies of Erste Group Bank's core markets in Central & Eastern Europe (CEE), therefore increasing the pressure on asset quality which is exacerbated by some concentration risks in its loan portfolio, capital ratios, revenues and earnings. Erste Group Bank's performance is heavily dependent on the attractive retail banking franchises the group has successfully established in CEE. As at 31 December 2008, about 47% of Erste Group Bank's risk-weighted assets (RWA) and 70% of its pre-tax profits came from the CEE region, with the Czech Republic and Romania being the most important markets, followed by activities in Hungary, Slovakia, Croatia, Serbia and Ukraine.

"Over the last decade, Erste Group Bank has built well-performing retail banks in CEE with attractive long-term perspectives. Nonetheless, the economic uncertainty and instability in many of these markets may slow down revenue and earnings streams and affect further asset quality," says Dominique Nutolo, a Frankfurt-based Moody's Assistant Vice President-Analyst, and lead analyst for Erste Group Bank. The rating agency also highlighted the capital gaps that Moody's expects to arise (even in scenarios of comparatively moderate growth), and Erste Group Bank's historically weak capital ratios.

The BFSR downgrade is to be seen in the context of the unpredictable and unstable operating environment which represents a major risk for Erste Group Bank's asset quality, and will likely put pressure on pre-tax profits and thus internal capital generation capacity although the rating also recognises the strong retail franchise with resilient and stable revenues. Moody's thus believes that a C- BFSR better captures this mixed profile. According to Moody's calculations, the bank could potentially absorb further writedowns of roughly EUR4.3 billion on its exposure at the current BFSR level of C-.

The rating agency added that the C- BFSR is based on the assumption that Erste Group Bank's capital ratios will benefit from a EUR2.7 billion participation capital injection (of which EUR1.89 billion from the Republic of Austria, with EUR1 billion already paid in) that should enable the bank to absorb some of these expected losses or writedowns without impacting its overall credit profile.

Furthermore, Moody's noted favourably that exposures to those asset classes most affected by the global financial crisis -- i.e. structured credit products -- are manageable and should not have a disproportionate impact on Erste Group Bank's earnings, capital or liquidity.

In line with the change of the outlook on the long term rating, Moody's changed the outlook on Erste Group Bank's preferred shares to negative from stable. The A2 rating was confirmed.

RATING ACTIONS ON SUBSIDIARIES OF ERSTE BANK

- Banca Comerciala Romana S.A. ("BCR"): the outlook of the local currency deposit ratings was changed to negative from stable. In accordance with Moody's Joint Default Analysis methodology the deposit ratings for BCR incorporate an uplift reflecting the rating agency's expectation of high support from its parent, Erste Bank. The outlook change reflects the respective negative outlook on the parent's BFSR. BCR's local currency deposit ratings of Baa1/Prime-2, and the foreign currency deposit ratings of Baa3/Prime-3 which are constrained by the foreign currency deposit ceiling of Romania remain unaffected by today's rating actions. The foreign currency deposit ratings carry a stable outlook.

- Slovenska Sporitelna (Slovakia): Moody's downgraded the long-term local and foreign currency deposit ratings of Slovenska Sporitelna to A2 stable outlook, from A1, concluding the review for possible downgrade

initiated on 12 December 2008. The following ratings of Slovenska Sporitelna were not affected by the rating action on the parent: BFSR of C- and short-term local and foreign currency deposit ratings of Prime-1.

- Erste Bank Hungary: Moody's downgraded the long-term local currency deposit ratings to A3 from A2 and they remain under review for possible further downgrade. The short-term local currency deposit rating was downgraded to Prime-2 from Prime-1, concluding the review for possible downgrade. The following ratings of Erste Bank Hungary were not affected by the rating action on the parent: the BFSR of D+, long-term foreign currency deposit ratings of Baa1, which continues to remain under review for possible downgrade and the short-term foreign currency deposit ratings of Prime-2.

- Ceska Sporitelna's ratings (Aa3/A1/P-1/C) were not affected by the rating action on the parent.

"The deposit ratings of Slovenska Sporitelna and Erste Bank Hungary benefit from substantial uplift from their BCAs due to Moody's assessment of the probability of systemic support," says Gabriel Kadasi, a London-based Analyst in Moody's Financial Institutions Group.

Moody's previous rating action on Erste Group Bank AG was on 11 December 2008, when its long-term debt and deposit ratings and its BFSR were placed on review for possible downgrade.

The principal methodologies used in rating Erste Group Bank AG -- and the above-mentioned subsidiaries -- are "Bank Financial Strength Ratings: Global Methodology" and "Incorporation of Joint-Default Analysis into Moody's Bank Ratings: A Refined Methodology", which can be found on www.moodys.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies subdirectory. Other methodologies and factors that may have been considered in the process of rating these entities can also be found in the Credit Policy & Methodologies directory.

Erste Group Bank AG is domiciled in Vienna, Austria. At the end of December 2008, it had total consolidated assets of EUR201.441 billion and equity of EUR11.095 million pursuant to IFRS. The group's Tier 1 ratio reached 6.21% according to BIS standards. For the full year 2008, Erste Group Bank reported consolidated pre-tax profits of EUR1.216 billion and a net income of EUR859.6 million.

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