

Rating Action: Moody's downgrades Erste Group Bank to A1; outlook stable

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Standalone BFSR affirmed at C- with a stable outlook and now maps to Baa1

Frankfurt am Main, March 30, 2011 -- Moody's Investors Service has today downgraded the long-term senior debt and deposit ratings of Erste Group Bank AG (Erste) by one notch to A1 from Aa3 reflecting the readjustment of Moody's systemic support assessment closer to pre-crisis levels. The outlook on these ratings has been changed to stable from negative. Subsequently, Moody's downgraded the ratings of Erste's senior subordinated debt to A2 from A1. At the same time, the bank's Prime-1 short-term rating was affirmed.

Moody's also affirmed the bank's C- standalone bank financial strength rating (BFSR), which now maps to an improved baseline credit assessment (BCA) of Baa1 from Baa2, reflecting the bank's stabilised risk profile and resilient earning potential. The outlook on the BFSR has been changed to stable from negative. Consequently, Moody's upgraded the ratings on junior subordinated debt and hybrid instruments of Erste as detailed further below.

The Aaa ratings that have been assigned to Erste's notes, which are guaranteed by the Republic of Austria (Aaa stable), are unaffected by today's rating action.

Any subsequent short-term debt, long-term senior debt, and subordinated debt issued by Erste will be rated P-1, A1, A2. Any subsequent junior subordinated debt with cumulative deferral features, junior subordinated debt with non-cumulative deferral features, and non-cumulative preferred securities will be rated Ba1 (hyb), Ba2 (hyb) or Ba1 (hyb), respectively.

Moody's will separately review any potential impact on the current ratings of the subsidiaries of Erste Group Bank, which are not covered in this press release.

For a detailed list of ratings affected, refer to the end of the press release.

RATINGS RATIONALE

FINANCIAL STRENGTH SLIGHTLY BETTER AT Baa1 BUT CONSTRAINED BY ASSET QUALITY CONCERNS

The BFSR has been affirmed at C- with a stable outlook, and now maps to a BCA of Baa1, which is at the upper end of the BFSR category, from Baa2 previously.

The affirmation reflects the stabilisation in Erste's risk profile and sound earnings power, which remained resilient throughout the financial crisis. Earnings remain underpinned by Erste's strong retail banking franchises in Central and Eastern Europe (CEE). In addition, Erste shows improved regulatory and economic capitalisation levels and therefore now benefits from better loss absorption capacity which underpins the C-BFSR. As a result of issuing common equity, raising participation capital both from the Austrian government and private investors in 2009, and retaining earnings, Erste's Tier 1 ratio has improved to 10.2% as per the preliminary 2010 results (from just 6.2% in 2008). The repayment of the EUR1.2 billion in government participation capital, which is anticipated to take place later in 2011, is expected to be compensated through continued internal capital generation.

The C- BFSR remains constrained by the continued pressure on asset quality resulting from Erste's exposure to Eastern European countries, most notably Romania, the Czech Republic and Hungary. While Moody's expects that problem loans will stabilise at current elevated levels, credit costs will continue to weigh on the bank's earnings for the foreseeable future.

The stable outlook on the BFSR reflects Moody's expectation that the stabilisation of asset quality and the overall improvement in the financial profile will be sustained. The rating agency does not rule out further strengthening of the bank's standalone profile over the longer term.

SENIOR DEBT AND DEPOSIT RATINGS STABILIZED AT A1 LOWERING EXTRAORDINARY SUPPORT ASSUMPTIONS

The downgrade of Erste's senior debt ratings to A1 reflects the reduction in Moody's systemic support assumptions for the bank from those previously factored into the ratings during the financial crisis. The bank's senior long-term debt and deposit ratings now take into account the bank's gradual exit from government support mechanisms, as reflected by Erste's planned repayment of the participation capital provided to the bank during the financial crisis. However, as a systemically relevant bank in Austria, Moody's considers Erste to continue to benefit from very high systemic support. Based on the bank's potential for further financial improvement, the rating agency now expects rating stability at the A1 level.

WHAT COULD CHANGE THE RATING UP/DOWN

Upward pressure on Erste's BFSR would depend on further improvement in its credit metrics, in particular relating to asset quality, profitability and capital. Upward pressure on the bank's debt and deposit ratings is limited in view of the high support assumptions already factored into the bank's long-term ratings and which continue to include an element of extra-ordinary support.

The BFSR could come under downward rating pressure due to (i) a stalled economic recovery in Eastern Europe resulting in additional substantial credit charges, beyond levels anticipated by Moody's; (ii) an extended period of weak earnings and hence lower internal capital generation; and (iii) weakened capitalisation levels as a result of strong asset growth in Eastern Europe. The bank's long-term ratings could suffer from a longer-term weakening in its intrinsic strength, as well as adverse changes in the systemic support assumptions currently factored into Erste's ratings. However, Moody's does not consider this likely at present.

HYBRID RATINGS UPGRADED; OUTLOOK ON ALL INSTRUMENTS STABLE

Following the change in the BCA to Baa1 from Baa2, Moody's upgraded Erste's junior subordinated debt with cumulative deferral features to Ba1 (hyb) from Ba2 (hyb) and the junior subordinated debt with non-cumulative deferral features to Ba2 (hyb) from Ba3 (hyb). The bank's non-cumulative preferred securities are upgraded to Ba1 (hyb) from Ba2 (hyb). The outlook on these ratings is stable, reflecting the stable outlook on the BFSR.

Junior subordinated debt with cumulative deferral features was upgraded to Ba1 (hyb), which is three notches below the Adjusted BCA, reflecting its junior subordinated claim in liquidation and cumulative deferral features tied to the breach of a net loss trigger. Non-cumulative junior subordinated debt was upgraded to Ba2 (hyb), which is four notches below the bank's Adjusted BCA reflecting its junior subordinated claim in liquidation and non-cumulative deferral features tied to the breach of a net loss trigger.

Non-cumulative preferred securities were upgraded to Ba1 (hyb), which is three notches below the Adjusted BCA, reflecting their deeply subordinated claim in liquidation and non-cumulative coupon skip mechanism tied to the breach of a balance sheet loss trigger.

DETAILED LIST OF RATING ACTIONS

Erste Group Bank AG

- BFSR: C- (BCA of Baa1), with stable outlook; it previously mapped to a Baa2 BCA
- senior debt and deposit ratings: A1, outlook changed to stable from negative
- subordinated debt ratings: A2, outlook changed to stable from negative
- short-term rating: Prime-1 affirmed
- junior subordinated rating (cum): Ba1 (hyb), outlook changed to stable from negative
- junior subordinated rating (non-cum): Ba2 (hyb), outlook changed to stable from negative
- non-cumulative preferred securities: Ba1 (hyb), outlook changed to stable from negative

MOODY'S METHODOLOGIES

The principal methodologies used in this rating were Bank Financial Strength Ratings: Global Methodology published in February 2007, Incorporation of Joint-Default Analysis into Moody's Bank Ratings: A Refined Methodology published in March 2007, and Moody's Guidelines for Rating Bank Hybrid Securities and Subordinated Debt published in November 2009.

Headquartered in Vienna, Austria, Erste Group Bank reported total assets of EUR206 billion as at year end 2010 and a pre-tax profit for 2010 of EUR1.5 billion.

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Frankfurt am Main
Sven Metzler
Asst Vice President - Analyst
Financial Institutions Group
Moody's Deutschland GmbH
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Frankfurt am Main
Carola Schuler
MD - Banking

Financial Institutions Group
Moody's Deutschland GmbH
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main 60322
Germany
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454



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