

Rating Action: Moody's downgrades Austrian banks; ratings carry stable or negative outlooks

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Actions conclude rating reviews initiated or extended on 15 February 2012

Frankfurt am Main, June 06, 2012 -- Moody's Investors Service has today taken various rating actions on Austrian banks, including downgrades of the debt and deposit ratings of the three largest Austrian banking groups.

The senior debt and deposit ratings of Raiffeisen Bank International (RBI) and UniCredit Bank Austria (UBA) were downgraded by one notch, whilst those of Erste Group Bank AG (Erste) were downgraded by two notches. The new ratings are as follows:

- RBI, deposit ratings A2, standalone bank financial strength rating (BFSR) D+ / baseline credit assessment (BCA) ba1,
- UBA, deposits A3, BFSR D+ / BCA ba1,
- Erste, deposits A3, BFSR D+ / BCA baa3.

The short-term ratings for Erste and UBA have been downgraded by one notch to Prime-2, reflecting the same considerations that triggered the long-term rating changes. RBI's Prime-1 rating has not been affected by today's rating action.

The debt and deposit ratings and standalone credit assessment for RBI carry stable outlooks. The debt and deposit ratings for UBA carry negative outlooks, due to the negative outlook on its parent's ratings. The standalone credit assessment for UBA carries a stable outlook. The debt and deposit ratings and standalone credit assessment for Erste carry negative outlooks given the bank's less diversified CEE franchise which makes Erste more vulnerable to negative developments in single countries such as the adverse and uncertain operating conditions in Romania and Hungary, where Erste has sizeable operations.

The rating downgrades for the three major Austrian banks reflect their vulnerability to the adverse operating conditions in some of their core markets in Central and Eastern Europe and the Commonwealth of Independent States (CEE/CIS) and the increased risk of further shocks from the ongoing euro area debt crisis. Specifically, the main drivers underlying today's rating actions are:

- » Risks to asset quality resulting from their exposures to the CEE/CIS region and increased uncertainty from the euro area crisis.
- » Limited capital buffers to absorb losses in a stressed environment, which leave banks vulnerable to further asset quality deterioration and other potential shocks. While Austrian banks have improved capital and reserves, loss-absorption capacity in an adverse scenario remains below that of many European banking peers.
- » Moderate reliance on wholesale funds which, while manageable, renders the banks susceptible to the increased risk of possible disruptions amidst the adverse and highly uncertain current environment.

Moody's recognises several mitigating factors that have limited the extent and scope of today's actions on Austrian banks. These include (i) the three largest banks' solid franchises which generate solid pre-provision earnings; (ii) the relatively stable domestic environment, (iii) the benefits derived from being an integral part of the intrinsically strong Austrian cooperative sector (in the case of RBI), of the Austrian savings banks sector (in the case of Erste), and the broader franchise and access to funding that UBA obtains via its parent UniCredit SpA (UniCredit, deposits A3, BFSR C- / BCA baa2). Moody's also recognises positively that the three largest Austrian banks have limited direct exposures to countries in Europe's southern periphery.

The average deposit rating for Austrian banks of A3 positions the banks in the middle to lower range across western

European banking systems. The average standalone credit assessment of ba1 ranks at the lower end compared with many European peers. This reflects Moody's view that the banks will be challenged by adverse operating conditions in western Europe and the CEE/CIS region, which Moody's expects will persist through 2012 and likely beyond. The rating agency's assumptions about external support for the three largest Austrian banks are unchanged and lead to their deposit ratings being positioned three to five notches above their standalone credit assessments.

SEVERAL BANK RATINGS REMAIN ON REVIEW FOR ISSUER-SPECIFIC REASONS

At the same time, Moody's decided today to maintain the review for downgrade of the ratings of Hypo Tirol Bank AG (deposits A2; BFSR D / BCA ba2) and Oesterreichische Volksbanken AG (deposits Baa2; BFSR E+ / BCA b1) together with its subsidiary Investkredit AG (deposits Baa2; BFSR E+ / BCA b1). While these banks are also affected by the worsening operating environment in Europe, the ongoing rating reviews are mainly driven by reasons that are specific to each individual bank. Moody's also maintains the review for downgrade of the backed ratings of Pfandbriefstelle der Oesterreichischen Landes-Hypothekenbanken (senior Aaa, review for downgrade) that were put on review on 21 February 2012 as a result of the gradual credit deterioration of Pfandbriefstelle's member banking groups and their statutory guarantors, the respective Austrian states or municipalities.

Please click on this (http://www.moody.com/viewresearchdoc.aspx?docid=PBC_142798) for the List of Affected Credit Ratings. This list is an integral part of this press release and identifies each affected issuer. For additional information on bank ratings, please refer to the webpage containing Moody's related announcements: <http://www.moody.com/bankratings2012>.

Moody's today also published a Special Comment entitled "Key Drivers of Austrian Bank Rating Actions," (http://www.moody.com/viewresearchdoc.aspx?docid=PBC_142002) which provides more detail on the rationales for these rating actions.

1.) RATINGS RATIONALE: STANDALONE CREDIT STRENGTH

- FIRST KEY DRIVER: RISKS TO ASSET QUALITY

Moody's expects that problem loan levels at the three largest Austrian banks will remain persistently high in 2012 and beyond, causing elevated provisioning requirements that may consume a large portion of these banks' pre-provision earnings, particularly if combined with possible further shocks from the euro area debt crisis. This outlook considers their large exposures to CEE/CIS markets that are more volatile (both economically and in some cases politically) than most western European economies, except for the most stressed euro area countries.

Moody's believes that elevated risks, particularly in the current volatile, uncertain environment, are highlighted by the recent deterioration in asset quality, including losses in longstanding markets for Austrian banks like Hungary. Average problem loan levels of rated Austrian banks rank among the highest across western European banking systems, at 11.0% of gross loans as of year-end 2011, up from 9.9 % at year-end 2010 (source: company reports).

- SECOND KEY DRIVER: LOW CAPITAL BUFFERS RELATIVE TO RISK PROFILES

In Moody's view, the three largest Austrian banks' limited capital buffers, combined with elevated asset quality risks, leave them vulnerable to severe stress scenarios. As such, limited capital cushions are a key negative credit driver for these banks. While Moody's recognises the banks' progress in strengthening regulatory capital ratios in recent years, the asset-weighted average Tier 1 ratio for Moody's-rated Austrian banks of 9.5% at year-end 2011 (source: company reports) still ranked below several western European peers. The average for all rated Austrian banks is driven in large part by limited capital at the three largest institutions.

- THIRD KEY DRIVER: RELIANCE ON WHOLESALE FUNDS

Another factor contributing to today's downgrades is Moody's view that the moderate reliance of the three largest Austrian banks on wholesale funding, while manageable, increases their susceptibility to external shocks. Given the current difficult European operating environment, Moody's considers the risk of sudden market movements and changes in investor confidence to be elevated. This increased likelihood of shocks -- rather than any change to the banks' funding profiles -- is a key driver behind Moody's assessment that the risks facing creditors of the three largest Austrian banks have increased.

Limiting concerns about liquidity risks, Moody's recognises that the three banks have to date weathered difficult funding market conditions well. The rating agency also notes that, after relying to some extent on wholesale funds to

finance rapid loan growth in CEE/CIS markets prior to the crisis, Austrian banks have in recent years increasingly focused on raising local funding. This reduces the need to access more costly wholesale funds and offers a more sustainable business model. For now, however, a certain portion of foreign assets is still funded in international capital markets, including with short-term interbank deposits, which Moody's regards as a potentially volatile funding source.

2.) RATINGS RATIONALE: LONG- AND SHORT-TERM DEBT & DEPOSIT RATINGS

The downgrades of the senior debt and deposit ratings for the three largest Austrian banking groups are driven by downgrades of their standalone credit assessments. Moody's has not changed its assumptions about the availability of support for the three largest banks. Their senior debt and deposit ratings continue to be positioned three to five notches above their standalone credit assessments. This support-driven ratings uplift incorporates Moody's assumptions about access to support from the Austrian cooperative sector (leading to two notches of uplift for RBI), parental support (leading to two notches of uplift for UBA) and governmental support (leading to two additional notches of uplift for UBA and three additional notches for Erste and RBI).

Moody's continues to consider Austria as a medium support country. Given the importance of the banking system for Austria's economy and industrial backbone together with the long standing political tradition of the country in the CEE/CIS region, any failure of a major banking institution with subsequent bail ins of senior debt is likely to trigger a severe confidence crisis for the Austrian banking system. We therefore expect further emphasis on macroprudential measures to contain these risks rather than a withdrawal of support. We note that support assumptions remain subject to review in the context of the ongoing EU-wide resolution regime introduction.

The Austrian sovereign's own credit strength -- reflected in the current government bond rating of Aaa, with a negative outlook -- did not contribute to any of today's downgrades (for detail on the sovereign, see press release "Moody's adjusts ratings of 9 European sovereigns to capture downside risks"

(http://www.moodys.com/research/Moodys-adjusts-ratings-of-9-European-sovereigns-to-capture-downside--PR_237716), 13 February 2012).

3.) RATINGS RATIONALE: SUBORDINATED DEBT AND HYBRID RATINGS

In addition, Moody's has today downgraded senior subordinated debt ratings for Austrian banks, following the removal of assumption of government (or systemic) support for this debt class. Senior subordinated debt ratings are now notched off the banks' adjusted stand-alone credit profile. This reflects Moody's view that systemic support for the subordinated debt of Austrian banks may no longer be sufficiently predictable or reliable to warrant incorporating uplift into Moody's ratings. (For more detail, please refer to Moody's announcement entitled "Moody's reviews European banks' subordinated, junior and Tier 3 debt for downgrade", 29 November 2011). Moody's also downgraded the hybrid ratings of the three major Austrian banks in line with the downgrade of their adjusted stand-alone credit profile.

4.) RATINGS RATIONALE: RBI'S US COMMERCIAL PAPER PROGRAM

At the same time, Moody's decided to downgrade RBI's US CP program to Not Prime from P-1 as the program no longer meets Moody's requirements for liquidity risk insurance for a P-1 rating due to a change in the programme structure. As there is no debt outstanding under the program, Moody's decided to subsequently withdraw the rating for its own business reasons. Please refer to Moody's Investors Service's Policy for the Withdrawal of Credit Ratings, available on its website, www.moodys.com.

ACTIONS FOLLOW REVIEW ANNOUNCEMENTS ON 15 FEBRUARY 2012 AND OTHER DATES

Today's rating actions follow Moody's decision to review for downgrade the ratings of 114 European financial institutions, including Austrian banks (see press release entitled "Moody's reviews Ratings for European Banks" (http://www.moodys.com/research/Moodys-Reviews-Ratings-for-European-Banks--PR_237914), 15 February 2012).

Erste had already been placed on review for downgrade before that date (see press release entitled "Moody's reviews for downgrade Erste Group Bank's ratings", (http://www.moodys.com/research/Moodys-reviews-Erste-Group-Banks-A1C-ratings-for-downgrade-Austria--PR_229883), 4 November 2011). The ratings for Pfandbriefstelle der Oesterreichischen Landes-Hypothekenbanken (backed senior Aaa, review for downgrade) were put on review on 21 February (see press release "Moody's takes actions on Austrian banks, following actions on European sub-sovereigns" (http://www.moodys.com/research/Moodys-takes-actions-on-Austrian-banks-following-actions-on-European--PR_238312)).

WHAT COULD MOVE THE RATINGS UP/DOWN

In view of today's rating downgrades and the negative outlooks for most banks, Moody's does not consider upgrades of the banks' ratings to be likely in the near term. However, a limited amount of upward rating pressure could develop if any bank substantially improves its credit profile and resilience to the prevailing conditions. This may occur through increased standalone strength, e.g. bolstered capital and liquidity buffers, a work-out of asset quality challenges or significantly improved earnings.

Several factors could cause further downward rating changes, such as (i) asset quality deterioration beyond current expectations; (ii) deteriorating earnings and capital levels; and (iii) increasingly restricted capital markets access.

RESEARCH REFERENCES

For further detail please refer to:

- List of Affected Issuers: (http://www.moody.com/viewresearchdoc.aspx?docid=PBC_142798), 6 June 2012
- Special Comment: Key Drivers of Austrian Bank Rating Actions, 6 June 2012
- Press Release: Moody's Reviews Ratings for European Banks, 15 Feb 2012
- Special Comment How Sovereign Credit Quality May Affect Other Ratings, 13 Feb 2012
- Special Comment: Euro Area Debt Crisis Weakens Bank Credit Profiles, 19 Jan 2012
- Special Comment: European Banks: How Moody's Analytic Approach Reflects Evolving Challenges, 19 Jan 2012

Moody's webpages with additional information:

- <http://www.moody.com/bankratings2012>
- <http://www.moody.com/eusovereign>

The methodologies used in these ratings were Bank Financial Strength Ratings: Global Methodology published in February 2007, and Incorporation of Joint-Default Analysis into Moody's Bank Ratings: Global Methodology, published in March 2012. Please see the Credit Policy page on www.moody.com for a copy of these methodologies.

BANK-SPECIFIC RATING CONSIDERATIONS

This section discusses bank-specific rating considerations. Please click on this (http://www.moody.com/viewresearchdoc.aspx?docid=PBC_142798) for the List of Affected Credit Ratings. This list is an integral part of this press release and identifies each affected issuer.

- ERSTE GROUP BANK (Erste) (deposits A3, BFSR D+ / BCA baa3)

The two notch lowering of Erste's standalone credit assessment reflects the combination of the recent significant asset quality deterioration and the sizable exposure to Hungary and Romania which together with a less diversified franchise in the region makes the bank more dependent on developments in the remaining performing CEE countries, notably Czech Republic and Slovakia. The negative outlook on the ratings is driven by the tail risk resulting from Hungary and Romania. Capital ratios under Moody's stress scenarios appear vulnerable. This weakness is partly counterbalanced by Erste's strong domestic Austrian franchise (carrying the savings bank brand) and the relatively low exposure to euro area peripheral countries.

- RAIFFEISEN BANK INTERNATIONAL (RBI) (deposits A2, BFSR D+ / BCA ba1)

The one notch lowering of RBI's stand-alone credit assessment reflects the bank's vulnerability to further asset-quality deterioration in the current volatile market environment given the bank's tight capital profile. The bank's risk profile is more geared toward riskier CEE/CIS countries than that of its major Austrian competitors (67% of its loan book, 24% in non-investment-grade countries; source: company reports). The rating agency acknowledges that RBI has sound non-performing loans (NPL) coverage ratios, which mitigate the potential credit-negative effects if losses were to materialize. At their current level the ratings already reflect a further moderate deterioration of the operating

environment in CEE / CIS, therefore the stable outlook.

- RAIFFEISEN ZENTRALBANK AG OESTERREICH (RZB) (deposits A3)

The one notch downgrade of RZB's long term and short term debt and deposit ratings to A3 / Prime-2 follows the downgrade of the long-term deposit rating of RZB's majority owned main operating subsidiary RBI. Given that RZB's earnings as a holding company depend almost exclusively on income streams from RBI, we continue to rate RZB's long term ratings one notch below RBI's. Certain backed long-term senior unsecured or subordinated ratings of RZB benefit from an unconditional and irrevocable guarantee of RBI, such that RBI's respective ratings continue to be passed through to the eligible securities.

- UNICREDIT BANK AUSTRIAAG (UBA) (deposits A3, BFSR D+ / BCA ba1)

The one notch lowering of UBA's stand-alone credit strength assessment reflects the bank's vulnerability due to (i) weakened asset quality with NPLs at 10.1% of gross loans, the highest amongst the three largest Austrian banks, in combination with a low problem loan coverage (52 %), and (ii) the bank's relatively high gearing into wholesale funding (loan-to-deposit ratio of 136% as of FY2011; source: company reports). In Moody's view, this renders the bank more vulnerable to confidence-sensitive funding than its Austrian peers. The current rating is supported by factors including the bank's solid capital adequacy levels and its well diversified CEE/CIS franchise (49% of its loan book, 31% in non-investment-grade countries; source: company reports). UBA's fundamental credit strength incorporates a further moderate deterioration of the operating environment in CEE / CIS, therefore the stable outlook on the BFSR. The negative outlook on the senior debt and deposit ratings is driven by the negative outlook on the credit strength of the bank's parent, UniCredit.

- card complete Service Bank AG (card complete) (deposits Baa2, BFSR D / BCA ba2)

The one notch lowering of card complete's deposit ratings to Baa2 reflects the weakening credit profile of UBA, its majority shareholder. Moody's continues to incorporate very high parental support assumptions into card complete's long-term ratings whose negative outlook follows the outlook on UBA's long term ratings.

REGULATORY DISCLOSURES

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The below contact information is provided for information purposes only. Please see the issuer page on www.moody's.com for Moody's regulatory disclosure of the name of the lead analyst and the office that has issued the credit rating

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