

March 18, 2009

Research Update:

Austria-Based Erste Group Bank AG 'A/A-1' Ratings Affirmed; Outlook Negative

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Rationale

On March 18, 2009, Standard & Poor's Ratings Services affirmed its 'A' long-term and 'A-1' short-term counterparty credit ratings on Austria-based Erste Group Bank AG. The outlook is negative.

We also affirmed the ratings on Erste Bank's subsidiaries, Romania-based Banca Comerciala Romana (BB+/Negative/--), Czech Republic-based Ceska Sporitelna a.s. (A/Negative/A-1), and the Slovak Republic's Slovenska Sporitelna (Unsolicited public information rating 'A-pi'), despite pressure on their stand-alone credit profiles.

The rating affirmation reflects our view of Erste Bank as a highly systemically important institution to Austria and the funding and €1.9 billion non-voting capital support Erste Bank will receive from the Austrian government. We believe that the government would continue to provide support to Erste Bank in case of need. Consequently, we now consider Erste Bank a government-related entity, according to our definition of entities that are potentially affected by government intervention during periods of stress (see "Enhanced Methodology For Rating Government-Related Entities And Assessing The Potential For Extraordinary Government Intervention," published on Jan. 23, 2009, on RatingsDirect).

Although we consider government support temporary, it largely mitigates our more cautious view on the future development of Erste Bank's stand-alone credit profile in light of the pressure we expect on the bank's earnings from increasing credit risk, particularly in Central and Eastern Europe (CEE). Therefore, the long-term ratings on Erste Bank now include two notches of support above our assessment of the bank's prospective stand-alone credit strength.

The affirmations also reflect increasing macroeconomic risks from the global recession, which might materially affect the financial profile and business prospects of Erste Bank's major operations in the CEE region as well as in its home country. Specifically, the large operations in Romania and Hungary may put pressure on Erste Bank if the operating environment were to deteriorate further.

Erste Bank's capitalization has been the primary negative rating factor over the past few years. By the intended issuance of €2.7 billion in participation capital, up to €1.9 billion of which will be subscribed by the Austrian government, we expect its Tier 1 ratio to increase to about 10% from 7.2% as of Dec. 31, 2008 (for further details, see our report "Erste Group Bank AG," published on Dec. 10, 2008, on RatingsDirect).

We believe the announced transaction will be executed in the second quarter of 2009. The current capital measures, however, might not be sufficient to absorb rising risk costs if credit quality were to deteriorate more than we currently anticipate. In addition to the issuance of new capital,

the Republic of Austria (AAA/Stable/A-1+) is providing Erste Bank with the option to issue up to €6 billion in guaranteed debt, of which €2.5 billion (rated 'AAA') has been issued to date.

The ratings on Erste Bank are based on the group's prominent market position in Austria and relatively mature CEE countries such as Slovakia and the Czech Republic. They are also based on the still-sound profitability in 2008 in large parts of the group, which we, however, expect to come under pressure in 2009, although preprovisioning profitability may remain satisfactory. Our ratings also reflect our view of Erste Bank and the Austrian savings banks as a single economic group.

According to preliminary figures for 2008, CEE is still the dominant force for the group's profitability, accounting for more than 50% of operating income to adjusted pretax income. CEE risk assets (including off-balance-sheet risk) represent about 31% of total exposure, according to preliminary figures. Preliminary data suggests that nonperforming loans in CEE nearly doubled in 2008 compared with 2007, reflecting the deteriorating environment. We expect this trend to continue and gain momentum over the next two years.

Outlook

The negative outlook reflects our view that Erste Bank will face a challenging operating environment in its key markets, which might lead to rising credit losses that could materially weaken its financial profile if the recession turns out to be deeper and longer than we currently anticipate. It also reflects uncertainties about Erste Bank's medium-term prospects of maintaining the current ratings on a stand-alone basis by the time government support, which we consider temporary, is phased out.

We would consider a downgrade, in particular, if we considered the government less willing to provide support, or if losses appear likely to erode the bank's capital base or impair its business model, notwithstanding our expectation of the likelihood of further support. In this event, external support may not, in our view, be sufficient to continue to justify the current ratings.

We currently consider an upgrade unlikely, due to the weak outlook for the Austrian and Eastern European economies.

Ratings List

Ratings Affirmed

Erste Group Bank AG	
Counterparty Credit Ratings	A/Negative/A-1
Certificate Of Deposit	A/A-1
Commercial Paper	A-1
Senior Unsecured Debt	A
Subordinated Debt	A-
Short-Term Debt	A-1

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Ceska Sporitelna a.s.	
Counterparty Credit Ratings	A/Negative/A-1
Certificate Of Deposit	A/A-1
Banca Comerciala Romana	
Counterparty Credit Rating	BB+/Negative/--
Senior Unsecured	BB+
Erste Finance (Delaware) LLC	
Commercial Paper*	A-1

*Guaranteed by Erste Group Bank AG.

NB: This list does not include all the ratings affected.

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