

**Research Update:**

**Erste Group Bank Ratings Affirmed  
At 'A/A-1' And Removed From  
CreditWatch Despite Downgrade Of  
Austria; Outlook Negative**

**Primary Credit Analyst:**

Pierre Gautier, Paris (33) 1-4420-6711;pierre\_gautier@standardandpoors.com

**Secondary Contact:**

Markus Schmaus, Frankfurt (49) 69-33-999-155;markus\_schmaus@standardandpoors.com

**Table Of Contents**

---

- Overview
- Rating Action
- Rationale
- Outlook
- Ratings Score Snapshot
- Related Criteria And Research
- Ratings List

## Research Update:

# Erste Group Bank Ratings Affirmed At 'A/A-1' And Removed From CreditWatch Despite Downgrade Of Austria; Outlook Negative

## Overview

- Standard & Poor's Ratings Services has reviewed the impact of its Jan. 13, 2012 downgrade of Austria on its ratings on Austrian Erste Group Bank AG (Erste).
- We have also reviewed Erste's stand-alone credit profile in light of the more adverse economic conditions we expect in 2012 and consider that it remains at 'bbb+' and that the two notches of support to the long-term rating reflecting Erste's high systemic importance in Austria continue to be applicable under our criteria.
- We have consequently affirmed our 'A/A-1' counterparty credit ratings on Erste and its core Czech subsidiary, Ceska Sporitelna A.S.
- We have removed the long- and short-term ratings on both banks from CreditWatch, where we placed them with negative implications on Dec. 8, 2011. The outlook on both banks is negative.
- We have affirmed our 'Api' public information rating on core Slovak subsidiary Slovenska Sporitelna A.S.

## Rating Action

As previously announced, on Jan. 25, 2012, 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 (Erste) and on its core Czech Republic-based subsidiary, Ceska Sporitelna A.S. The outlook on both banks is negative.

We removed the ratings on both banks from CreditWatch, where we placed them with negative implications on Dec. 8, 2011, following a similar action on the long-term rating on the Republic of Austria (AA+/Negative/A-1+).

We affirmed the 'A-' issue rating on Erste's nondeferrable subordinated debt.

The 'Api' public information (pi) rating on core Slovak-based subsidiary Slovenska Sporitelna A.S. was affirmed.

## Rationale

We affirmed the ratings on Erste because the two notches uplift we afford the rating for a "moderately high" likelihood of extraordinary government support and our assessment of the bank's stand-alone credit profile (SACP) remain unchanged.

In our view, Erste is a bank with "high systemic importance" in Austria, which we consider to be a "supportive" country. Under our criteria, our one-notch downgrade of Austria to 'AA+' from 'AAA' does not reduce the amount of support we factor into the rating on a highly systemically important bank such as Erste, whose SACP is at 'bbb+' (for further details, see table 22 in "Banks: Rating Methodology And Assumptions", published Nov.9, 2011).

We still base our assessment of Erste's SACP on the following:

- A 'bbb+' anchor, which is lower than the 'a-' anchor of a pure Austrian domestic bank to capture the risks embedded in Erste's large Central and Eastern Europe (CEE) operations; and
- Our view of Erste's "strong" business position, "moderate" capital and earnings, "above-average" funding, and "adequate" liquidity, as our criteria define these terms.

Although we have not changed our assessment of Erste's SACP components, we acknowledge the pressure stemming from our expectation of more adverse economic and financial market conditions throughout Europe, and notably CEE, and deteriorating operating conditions in Hungary (BB+/Negative/B), where Erste is one of the largest lenders.

These more adverse economic conditions could complicate and slow Erste's capacity to improve its "moderate" capital position, which is the main weakness to the ratings. On Sept. 30, 2011, according to European Banking Authority stress tests, Erste had a €753 million capital shortfall for a core Tier 1 ratio of 9%, excluding private participation capital but including such capital received from the Austrian government. In our opinion, Erste will be able, mainly through retained earnings and reduction of risk-weighted assets, to reach this level without state support or capital issuance. This regulatory-driven capital strengthening initiative should in turn translate into a slight improvement of the bank's risk-adjusted capital (RAC) ratio. We estimate that in 2012 this ratio before diversification should exceed 6%, moderately above the level we estimate for year-end 2011, under our base-case assumption that there will be an economic slowdown, but not a severe recession, in most CEE countries. Such a capital level remains "moderate" under our criteria and would sustain Erste's overall SACP at 'bbb+'. Total adjusted capital, the numerator of the RAC ratio, continues to exclude in full the participation capital issued by the group because of step-up features.

We consider that Erste's risk position could come under further pressure should the operating conditions in Hungary further deteriorate. As a large lender in this country, Erste is exposed to Hungarian sovereign debt and local authorities' financing. The related risks could be heightened if ongoing negotiations between the Hungarian government, the International Monetary Fund, and the European Commission prove unsuccessful. In addition, any additional weakening of the Hungarian forint may aggravate losses stemming from Swiss franc-denominated mortgages.

In our opinion, Erste's funding is "above average" and its liquidity is

"adequate". Erste's funding profile benefits from strong retail franchises in Austria, the Czech Republic (AA/Stable/A-1+), and the Slovak Republic (A/Stable/A-1), and we believe the group benefits from a flight to quality in these countries. Regulatory action to further limit the loan-to-deposit ratios for Austrian banks' CEE operations should result in even more positive customer funding ratios. The bank has liquid assets (including unpledged assets eligible for central bank refinancing) in excess of liabilities due in less than one year. In addition, wholesale funding maturing between 2012 and 2014 is about €5 billion a year, and we therefore believe refinancing risks are moderate, despite persistent weakness in the wholesale funding markets.

Because it is a core subsidiary of Erste, the ratings and outlook on Ceska Sporitelna move in tandem with those on Erste.

Slovenska Sporitelna is also a core subsidiary of Erste, but we do not use outlooks or plus and minus modifiers with our pi ratings.

## Outlook

The outlook is negative and reflects two risks:

- Under our criteria, with all other factors remaining equal, if the long-term rating on Austria, which currently also carries a negative outlook, is lowered by one notch to 'AA', one of the two notches currently factored in for extraordinary government support in the long-term ratings on Erste could be removed.
- If macroeconomic conditions deteriorate further than we currently expect in CEE, leading to higher credit losses and weaker earnings, this would likely prevent a strengthening of Erste's capital position, which is our base-case expectation. Erste's SACP could thereby come under pressure.

In addition to lowering the ratings on Erste following a sovereign downgrade, we would also lower the ratings on the bank if its RAC ratio before adjustments fell below 5% in the next 12 to 24 months or if impairment losses in Hungary and CEE significantly exceed those of 2011, leading to a revision of our risk position score to "moderate" from "adequate".

A positive rating action on Erste would require a revision of the outlook on Austria to stable along with tangible signs of abating economic pressure in CEE.

## Ratings Score Snapshot

Issuer Credit Rating	A
SACP	bbb+
Anchor	bbb+
Business Position	Strong (+1)
Capital and Earnings	Moderate (-1)
Risk Position	Adequate (0)

Funding and Liquidity	Above Average and Adequate (0)
Support	+2
GRE Support	0
Group Support	0
Sovereign Support	+2
Additional Factors	0

## Related Criteria And Research

All articles listed below are available on RatingsDirect on the Global Credit Portal, unless otherwise stated.

- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Group Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Austria-Based Erste Group Bank 'A/A-1' Ratings Placed On Watch Negative Following Sovereign Rating Action, Dec. 8, 2011
- Austria's Long-Term Ratings Lowered To 'AA+'; Outlook Negative, Jan. 13, 2012
- Standard & Poor's Affirms Ratings On Various Austrian Banks Following Resolution Of CreditWatch On Austria, Jan. 25, 2012

## Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Erste Group Bank AG		
Counterparty Credit Rating	A/Negative/A-1	A/Watch Neg/A-1
Certificate Of Deposit	A/A-1	A/Watch Neg/A-1
Senior Unsecured (11 issues)	A	A/Watch Neg
Subordinated (1 issue)	A-	A-/Watch Neg
Commercial Paper (1 issue)	A-1	A-1/Watch Neg
Erste Finance (Delaware) LLC		
Commercial Paper (1 issue)*	A-1	A-1/Watch Neg
Ceska Sporitelna A.S.		
Counterparty Credit Rating	A/Negative/A-1	A/Watch Neg/A-1
Certificate Of Deposit	A/A-1	A/Watch Neg/A-1
Ratings Affirmed		
Slovenska Sporitelna A.S. (Unsolicited Ratings)		
Counterparty Credit Rating		
Local Currency	Api/--/--	

*Research Update: Erste Group Bank Ratings Affirmed At 'A/A-1' And Removed From CreditWatch Despite Downgrade Of Austria; Outlook Negative*

\*Guaranteed by Erste Group Bank AG.

**Additional Contacts:**

Anna Lozmann, Frankfurt 49 0 69 33 999 166;anna\_lozmann@standardandpoors.com  
Financial Institutions Ratings Europe;FIG\_Europe@standardandpoors.com

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at [www.globalcreditportal.com](http://www.globalcreditportal.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

Copyright © 2012 by Standard & Poors Financial Services LLC (S&P), a subsidiary of The McGraw-Hill Companies, Inc. All rights reserved.

No content (including ratings, credit-related analyses and data, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P. The Content shall not be used for any unlawful or unauthorized purposes. S&P, its affiliates, and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P's opinions and analyses do not address the suitability of any security. S&P does not act as a fiduciary or an investment advisor. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) and [www.globalcreditportal.com](http://www.globalcreditportal.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).