Fitch Ratings-London/Paris/Barcelona-30 November 2012: Fitch Ratings has affirmed Erste Group Bank AG's (Erste), Raiffeisen Bank International AG's (RBI), UniCredit Bank Austria AG's (Bank Austria) and Volksbanken Verbund's (VB-Verbund) Long-term Issuer Default Ratings (IDR) at 'A'. The Outlook on all Long-term IDRs remains Stable.

In addition, the agency has affirmed the Viability Ratings (VR) of Erste at 'a-', RBI at 'bbb', Bank Austria at 'bbb+' and VB-Verbund at 'bb-'. A full list of rating actions is at the end of this rating action commentary.

RATING ACTION RATIONALE - IDRs, Support Ratings and Support Rating Floors
The affirmation of the banks' IDRs at their Support Rating Floor of 'A' reflects Fitch's opinion that it is extremely likely that the four banks would receive support from the Austrian authorities if required given their systemic importance for the Austrian financial sector and the Austrian economy.

All four banks have meaningful domestic deposit market shares, ranging from 7% at VB-Verbund to 19% at Erste. RBI itself does not have a large domestic deposit franchise but is an integral part of Raiffeisen Banking Group (RBG), Austria's largest banking group.

Fitch has also affirmed VB-Verbund's central institution, Oesterreichische Volksbanken Aktiengesellschaft AG's (OeVAG) Long-term IDR at 'A'. VB-Verbund is not a legal entity itself but a cooperative grouping of member banks, including OeVAG. As such, Fitch has assigned OeVAG "group" ratings under Fitch's rating criteria for banking structures backed by mutual support mechanisms. Fitch does not assign a VR to OeVAG.

The Stable Outlook on the banks' IDR mirrors the Stable Outlook on Austria's 'AAA' sovereign rating, last affirmed on 9 November 2012.

RATING ACTION RATIONALE - VRs
Erste's, RBI's and Bank Austria's VRs reflect the banks' broad regional diversification in Central and Eastern Europe (CEE), mitigating negative developments in single markets, solid pre-impairment profitability and improved funding and capital positions. The VRs also take into account still worsening asset quality in many CEE countries - albeit at a slower pace than in 2009/2010. In addition, the VR reflects contracting core revenues, largely due to continued sluggish loan growth in CEE and pressure on the banks' net interest margin (NIM), a trend which is however partly mitigated by the banks' renewed focus on cost management.

Erste's credit exposure to and revenue from more stable markets like Austria, the Czech Republic and Slovakia account for a higher proportion of the total compared to peers. Moreover, Erste's loan book is more granular and better diversified by sectors than those of its peers. In addition, Erste's deposit franchises in these three markets, notably in the Czech Republic, are strong which benefits the bank's overall balance sheet liquidity. All these factors support Erste's VR (at 'a-') which remains higher than the VRs of both Bank Austria ('bbb+') and RBI ('bbb').

RBI's VR is based on the bank's sound domestic corporate lending franchise, solid pre-impairment profitability and ample - albeit narrowing - net interest margin which benefits from RBI's regional diversification. The bank's VR also takes into account RBI's high proportion of participation capital in its capital base and consequently its below-average Fitch core capital ratio.

Bank Austria's VR reflects a geographically well-diversified revenue base, resilient operating profitability despite a still fragile operating environment in much of CEE and adequate core
capitalisation. The VR also takes into account Bank Austria's still-deteriorating asset quality and sizeable CEE net funding needs.

VB-Verbund's VR reflects the progress made in repositioning the group to focus on domestic retail operations. It disposed of several of its riskier assets in 2011 and during H1 2012, notably its CEE operations (excluding VB Romania) and some real estate activities. VB-Verbund's asset base is now of acceptable quality, and lumpy loan and securities impairments observed in the past are now less likely. The exception to this is VB Romania, where asset quality could potentially deteriorate although restructuring efforts are currently underway.

RATING DRIVERS AND SENSITIVITIES - IDRs, Support Ratings and Support Rating Floors
A weakened ability by the Austrian state to support its large banks (signalled by a change in the sovereign rating) or lower willingness to provide support (e.g., as a result of legislative changes) could lead to a downgrade of the banks' support-driven ratings.

Fitch has stated that it expects sovereign support for banks to weaken over time in many developed economies. If the agency changes its view about the propensity of the Austrian authorities to provide support for major Austrian banks, this would lead to downward pressure on the banks' IDRs, Support Rating and Support Rating Floor.

RATING DRIVERS AND SENSITIVITIES - VRs
Erste's, RBI's and Bank Austria's VRs are predominantly sensitive to worse-than-expected asset quality deterioration in CEE and to a lesser extent in their Austrian home market. Fitch expects non-performing loan ratios in most CEE markets to peak in late 2013 and the banks' VRs are sensitive to this view. A further contraction of the banks' NIM, either due to increasing funding costs or inability to continue re-pricing their asset base, significantly affecting their earnings base, would also be negative for the banks' VRs.

In addition, Erste's VR remains sensitive to macroeconomic developments in some of its currently underperforming key markets, notably Romania, Hungary and Croatia where Erste's proportion of lending exposure is higher than peers.

RBI's VR is currently constrained by the below-average quality of its capital base which includes a considerable share of government (EUR1.75bn) and commercial (EUR0.75bn) hybrid (participation) capital. Consequently, a sustained improvement of RBI's Fitch Core Capital ratio could lead to an upgrade of RBI's VR. RBI is more exposed to CEE markets than its domestic peers (with CEE loans accounting for around 71% of total loans at end-Q3 2012) and is therefore disproportionately sensitive to developments in CEE.

In addition to the VR sensitivities described above, Bank Austria's VR could be affected by a significant downgrade of the VR of its parent bank, UniCredit S.p.A. (UniCredit, 'A-/Negative/a-'). Due to Bank Austria's close operational integration into UniCredit, a significant deterioration at UniCredit, which Fitch does currently not consider likely, could ultimately also affect Bank Austria, e.g. through intragroup lending transactions.

VB-Verbund's VR is primarily sensitive to further significant extraordinary capital measures during OeVAG's restructuring process. Additional external capital support measures or the inability to repay government participation and common share capital over time would be negative for the ratings. In addition, should the deleveraging process (including its Romanian operations) result in material losses for the group, then VB-Verbund's VR could be downgraded.

The VR could be upgraded if the 'new' VB-Verbund successfully repositions itself to focus primarily on domestic retail operations whilst avoiding material credit losses. Clear sustainable improvements in the group's capital and financial positions would also be ratings-positive.

A report entitled '2013 Outlook: Austrian Banks' will be published in the coming weeks.

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES
Subordinated debt and other hybrid capital issued by Erste are all notched down from the VRs of
Erste in accordance with Fitch's assessment of each instrument's respective non-performance and relative loss severity risk profiles, which vary considerably. Their ratings are primarily sensitive to any change in the VR of Erste.

GOVERNMENT-GUARANTEED DEBT
Government-guaranteed debt ratings are sensitive to changes in the Republic of Austria's sovereign rating ('AAA'/Stable).

The rating actions are as follows:

Erste Group Bank AG
Long-term IDR: affirmed at 'A'; Outlook Stable
Short-term IDR: affirmed at F1'
Viability Rating: affirmed at 'a-'
Support Rating: affirmed at '1'
Support Rating Floor: affirmed at 'A'
Senior unsecured notes: affirmed at 'A'/F1'
Lower Tier 2 debt: affirmed at 'BBB+'
Upper Tier 2 debt: affirmed at 'BBB-'
EUR6bn guaranteed debt issuance programme: affirmed at 'AAA' and 'F1+'
Erste Finance (Delaware) LLC: USD10bn commercial paper programme, guaranteed by Erste: affirmed at 'F1'

Raiffeisen Bank International AG
Long-term IDR: affirmed at 'A'; Outlook Stable
Short-term IDR: affirmed at F1'
Viability Rating: affirmed at 'bbb'
Support Rating: affirmed at '1'
Support Rating Floor: affirmed at 'A'

UniCredit Bank Austria AG
Long-term IDR: affirmed at 'A'; Outlook Stable
Short-term IDR: affirmed at F1'
Viability Rating: affirmed at 'bbb+'
Support Rating: affirmed at '1'
Support Rating Floor: affirmed at 'A'
Senior unsecured notes: affirmed at 'A'

Volksbanken Verbund
Long-term IDR: affirmed at 'A'; Stable Outlook
Short-term IDR: affirmed at 'F1'
Viability Rating: affirmed at 'bb-
Support Rating: affirmed at '1'
Support Rating Floor: affirmed at 'A'

OeVAG
Long-term IDR: affirmed at 'A'; Stable Outlook
Short-term IDR: affirmed at 'F1'
Support Rating affirmed at '1'
Government guaranteed bonds affirmed at 'AAA'
Market Linked Securities: affirmed at 'Aemr'
Senior unsecured notes: affirmed at 'A'/F1'

The other VB-Verbund member banks' Long-term IDRs have been affirmed at 'A' with Stable Outlook and Short-term IDRs at 'F1'. These ratings are "group" ratings assigned under Fitch's rating criteria for banking structures backed by mutual support mechanisms and are sensitive to a downgrade of VB-Verbund's Support Rating Floor. The full list of VB-Verbund member banks is as follows:
Bank fuer Aerzte und freie Berufe AG
Volksbank Weinviertel e.Gen.
VOLKSBANK OBERES WALDVIERTEL rGmbH
Gaertnerbank, rGmbH
Volksbank Tullnerfeld eG
Volksbank Bad Goisern eingetragene Genossenschaft
Volksbank Osttirol rGmbH
Volksbank Oetscherland eG
Volksbank Fels am Wagram e.Gen.
Volksbank Krems-Zwettl AG
Volksbank Laa eGen
Volksbank Marchfeld e.Gen.
Volksbank, Gewerbe- und Handelsbank Kaernten AG
VOLKSBANK fuer den Bezirk Weiz rGmbH
Volksbank Tirol Innsbruck-Schwaz AG
Volksbank Altheim-Braunau rGmbH
Volksbank Feldkirchen, rGmbH
Volksbank Schaerding eG
Volksbank Steirisches Salzkontor, rGmbH
VOLKSBANK BADEN e.Gen.
VOLKSBANK OBERKAERNTEN rGmbH
VOLKSBANK VOECKLABRUCK-GMUNDEN e.Gen.
Volksbank Wien AG
Volksbank Enns- und Paltental rGmbH
Volksbank Bad Hall e.Gen.
Volksbank Linz-Wels-Muehlviertel AG
Volksbank Gmuend eingetragene Genossenschaft
Allgemeine Bausparkasse rGmbH
Volksbank Alpenvorland e.Gen.
Waldviertler Volksbank Horn rGmbH
Volksbank Ost rGmbH
Volksbank Kufstein eG
Volksbank Ried im Innkreis eG
Volksbank Enns-St. Valentin eG
Volksbank Friedburg rGmbH
Oesterreichische Apothekerbank eG
Volksbank Voecklamarkt-Mondsee rGmbH
Volksbank Gailtal eG
Volksbank Niederosterreich Sued eG
Volksbank Oberndorf rGmbH
Volksbank Obersdorf-Woltersdorf-Deutsch-Wagram e.Gen.
VOLKSBANK GRAZ-BRUCK e.Gen.
Volksbank Muerztal-Leoben e.Gen
Volksbank Eferding-Grieskirchen rGmbH
Volksbank fuer die Sued- und Weststeiermark rGmbH
Volksbank Donau-Weinland rGmbH
Volksbank Salzburg eG
Volksbank Almtal e.Gen.
VOLKSBANK VORARLBERG e.Gen.
VOLKSBANK LANDECK eG
Volksbank Aichfeld-Murboden rGmbH
SPARDA-BANK VILLACH/INNSBRUCK rGmbH
Volksbank Kaernten Sued e.Gen.
IMMO-BANK AG
Volksbank Niederoesterreich-Mitte e.G.
Volksbank Sued-Oststeiermark e.Gen.
Volksbank Suedburgenland rGmbH
SPARDA-BANK LINZ rGmbH
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Applicable Criteria and Related Research:
Global Financial Institutions Rating Criteria
Rating Criteria for Banking Structures Backed by Mutual Support Mechanisms
Rating Bank Regulatory Capital and Similar Securities
Austria

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