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

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

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

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The 'A-' issue rating on Erste's nondeferrable subordinated debt.

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

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issuer Credit Rating</td>
<td>A</td>
</tr>
<tr>
<td>SACP</td>
<td>bbb+</td>
</tr>
<tr>
<td>Anchor</td>
<td>bbb+</td>
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<tr>
<td>Business Position</td>
<td>Strong (+1)</td>
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<tr>
<td>Capital and Earnings</td>
<td>Moderate (-1)</td>
</tr>
<tr>
<td>Risk Position</td>
<td>Adequate (0)</td>
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</tbody>
</table>

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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

<table>
<thead>
<tr>
<th>To From</th>
<th>From</th>
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<tbody>
<tr>
<td>Erste Group Bank AG</td>
<td></td>
</tr>
<tr>
<td>Counterparty Credit Rating A/Negative/A-1 A/Watch Neg/A-1</td>
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</tr>
<tr>
<td>Certificate Of Deposit A/A-1 A/Watch Neg/A-1</td>
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<tr>
<td>Senior Unsecured (11 issues) A A/Watch Neg</td>
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<tr>
<td>Subordinated (1 issue) A- A-/Watch Neg</td>
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<tr>
<td>Commercial Paper (1 issue) A-1 A-1/Watch Neg</td>
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<tr>
<td>Erste Finance (Delaware) LLC</td>
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<tr>
<td>Commercial Paper (1 issue)* A-1 A-1/Watch Neg</td>
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<tr>
<td>Ceska Sporitelna A.S.</td>
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<tr>
<td>Counterparty Credit Rating A/Negative/A-1 A/Watch Neg/A-1</td>
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<tr>
<td>Certificate Of Deposit A/A-1 A/Watch Neg/A-1</td>
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</tbody>
</table>

Ratings Affirmed

Slovenska Sporitelna A.S. (Unsolicited Ratings)
Counterparty Credit Rating
Local Currency Api/--/--
*Guaranteed by Erste Group Bank AG.

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