

FITCH AFFIRMS AUSTRIA'S VOLKSBANKEN VERBUND AT 'A'; VOLKSBANK SLOVENSKO ON WATCH EVOLVING

Fitch Ratings-London/Istanbul-22 December 2010: Fitch Ratings has affirmed Vienna-based Volksbanken Verbund's (VB-Verbund) Long-term Issuer Default Rating (IDR) at 'A' with Stable Outlook. At the same time, the agency has removed VB-Verbund's Individual Rating from Rating Watch Negative (RWN) and affirmed it at 'C/D'. VB-Verbund's remaining ratings have been affirmed at Short-term IDR 'F1', Support Rating '1' and Support Rating Floor (SRF) 'A'.

The ratings of VB-Verbund's central institution, Oesterreichische Volksbanken-Aktiengesellschaft (VBAG), a member of the support mechanisms, have also been affirmed at Long-term IDR 'A' with a Stable Outlook, Short-term IDR 'F1', Support '1' and SRF 'A'. The ratings of the other VB-Verbund member banks have been affirmed at Long-term IDR 'A' with Stable Outlook and Short-term IDR 'F1'. A full set of ratings for both VB-Verbund and VBAG as well as a list of VB-Verbund member banks is included at the end of this comment.

Separately, Fitch has placed Slovakia-based Volksbank Slovensko a.s.'s (VS) Long-term IDR of 'BBB+', Short-term IDR of 'F2' and Support Rating of '2' on Rating Watch Evolving (RWE). VS's Individual Rating was affirmed at 'D'. This rating action is triggered by VBAG's recent announcement that it is considering selling its 51%-owned subsidiary Volksbank International (VBI).

All of VB-Verbund's and VBAG's ratings (except VB-Verbund's Individual Rating) are based on Fitch's view that support, in case of need, for VB-Verbund from the Republic of Austria (rated 'AAA'/Stable) is extremely likely. With deposit and lending market shares of around 7% respectively at end-2009, VB-Verbund is Austria's fourth-largest banking group and as such considered of domestic systemic importance by Fitch. VBAG's Support Rating and SRF are based on Fitch's assumption that, as the central institution of the VB-Verbund, VBAG would be the entity through which sovereign support - if ever needed - would be channelled to smaller member banks within the sector.

The removal of the RWN on VB-Verbund's Individual Rating reflects Fitch's opinion that various measures taken by VB-Verbund and VBAG to stabilise the financial and risk profile of VBAG have been sufficient to support a 'C/D' Individual Rating for VB-Verbund (Fitch has not assigned an Individual Rating to VBAG). VBAG suffered severe net losses in 2008 and 2009 largely as a result of the deconsolidation of its former subsidiary (Kommunalkredit Austria AG; see separate research on www.fitchratings.com), significant valuation losses on financial participations and real estate investments and sharply increasing loan impairment charges (LIC), predominately on its corporate, real estate and central and eastern European (CEE) retail exposures (see Related Research for more information).

To strengthen its weakened capitalisation, VBAG applied for EUR1bn in participation capital from the Austrian state, obtained in Q209. Disposals of VBAG's Austrian retail banks and of its real estate investment company, Europolis, in 2010 have further supported capitalisation. Moreover, VBAG announced in December 2010 that it is considering selling further assets, including its 51% stake in VBI, its management holding company of its business in CEE. These measures, apart from improving VBAG's capitalisation (tier 1 ratio of 8.85% at end-Q310), will lead to a significantly smaller entity which will make it considerably easier for VB-Verbund's primary banks, VBAG's majority owners, to support VBAG if needed.

VB-Verbund's Individual Rating also reflects Fitch's assessment of the acceptable performance of VB-Verbund's primary banks. This is balanced by Fitch's view that the staggered repayment of the EUR1bn participation capital obtained from the Austrian state will be a strain on VB-Verbund. VBAG will be obliged to repay EUR300m participation capital in 2011 to avoid triggering a

conversion option by the Austrian government. Under the current business plan, VB-Verbund will provide EUR300m to VBAG to ensure repayment while asset disposals in 2011 or 2012 should help meet the remaining repayments (until 2018). Should VBAG's planned deleveraging be insufficient to materially improve capitalisation, then this would put pressure on VB-Verbund's Individual Rating.

VB-Verbund, which is not a legal entity itself but a cooperative grouping of member banks, is Austria's fourth-largest banking group, offering a wide range of banking services. VBAG is responsible for managing the sector's liquidity requirements, but also a bank in its own right. VBAG itself offers capital market services while retail lending activities in CEE are grouped in VBI. It also provides corporate and real estate financing, both in CEE and Austria, through its fully-owned subsidiary, Investkredit AG. VBAG has announced that it will merge with Investkredit in H111.

VS's IDR and Support rating are based on a high probability of support, in case of need, from its ultimate majority shareholder, VBAG, and its strong integration into VBI. Following VBAG's announcement of plans to divest VBI, there's a strong likelihood that the future shareholder structure of VS will change, hence affecting the probability of support from the new parent. The RWE will be resolved once VBAG completes the sale of its stake in VBI.

VS's Individual Rating is not affected by this announcement, as its operations are largely independent from the parent. VS is almost entirely funded by customer deposits and parent-related funding is negligible (only 0.03% of total funding at end-H110). Loan/deposit ratio is around 100% and it has not required any liquidity/capital support from the parent during the economic crisis. VS's systems and departments are capable of functioning independently.

Contact:

The rating actions are as follows:

Volksbanken Verbund (VB-Verbund)

Long-term IDR: affirmed at 'A'; Outlook Stable

Short-term IDR: affirmed at 'F1'

Individual Rating: affirmed at 'C/D'; removed from RWN

Support Rating: affirmed at '1'

Support Rating Floor: affirmed at 'A'

Oesterreichische Volksbanken Aktiengesellschaft (VBAG)

Long-term IDR: affirmed at 'A'; Outlook Stable

Short-term IDR: affirmed at 'F1'

Support Rating: affirmed at '1'

Support Rating Floor: affirmed at 'A'

Senior unsecured notes: affirmed at 'A'

Government-guaranteed notes: affirmed at 'AAA'

Volksbank Slovensko a.s. (VS)

Long-term IDR of 'BBB+' placed on Rating Watch Evolving (RWE)

Short-term IDR of 'F2' placed on RWE

Support Rating of '2' placed on RWE

Individual Rating: affirmed at 'D'

The full list of VB-Verbund member banks (in addition to VBAG) 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 Salzkammergut 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 eing.GmbH
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 Niederoesterreich Sued rGmbH
Volksbank Oberndorf rGmbH
Volksbank Obersdorf-Wolkdersdorf-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
Wiener Spar- und Kreditinstitut 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
VB Factoring Bank AG
Volksbank-Quadrat Bank AG

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Applicable criteria, 'Global Financial Institutions Rating Criteria', dated 13 August 2010, and 'Short-Term Ratings for Corporate Finance', dated 2 November 2010, are available at www.fitchratings.com.

A full rating report on VB-Verbund and an update report on VBAG will be available shortly on www.fitchratings.com.

Applicable Criteria and Related Research:
Global Financial Institutions Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=547685
Short-Term Ratings for Corporate Finance
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=568726

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