

FITCH AFFIRMS VB-VERBUND AND OEVAG AT 'A'; DOWNGRADES VR TO 'BB-'/RWN

Fitch Ratings-London-13 January 2012: Fitch Ratings has affirmed Volksbanken Verbund's (VB-Verbund) Long-term Issuer Default Rating (IDR) at 'A' with a Stable Outlook. The agency has also downgraded VB-Verbund's Viability Rating (VR) to 'bb-' from 'bb+' and maintained it on Rating Watch Negative (RWN). At the same time, Fitch has affirmed Oesterreichische Volksbanken-Aktiengesellschaft's (OeVAG) Long-term IDR at 'A' with a Stable Outlook. A full list of rating actions is at the end of this comment.

The downgrade of VB-Verbund's VR and the maintenance of the RWN reflect the ongoing challenges faced by VB-Verbund's central institution, OeVAG, in relation to its capital position, risk profile and revised business model, for which the outcomes are still uncertain. In the context of OeVAG's weak financial position, the downgrade takes into account a significant strain on VB-Verbund's resources necessary to support the initiated restructuring of OeVAG and the group, and execution risks relating to the restructuring process.

Fitch expects to resolve the RWN once there is more clarity about the impact of the group's initiated restructuring process and implementation of a new business model, the success of various initiatives to enhance the capital position (including the sale of most of the components of Volksbank International AG (VBI)) and maintenance of the funding and liquidity position. If these difficulties are largely overcome and the restructuring is implemented without significant extraordinary support from the state, the agency expects that VB-Verbund's VR will remain at its current level. Otherwise, VB-Verbund's VR could be downgraded.

As all but one (the sale of VBI to Sberbank of Russia) of the capital strengthening measures announced in 2011 has had to be postponed due to adverse market conditions, OeVAG continues to be challenged to generate sufficient capital for the timely repayment of government participation capital (EUR1bn) and compliance with stricter domestic and potentially European Banking Authority (EBA) regulatory capital requirements.

VB-Verbund and OeVAG initiated a comprehensive legal re-organisation of the group structure in late 2011, envisaging a legal form similar to Rabobank in the Netherlands. If implemented, this would optimise VB-Verbund's and, more importantly, OeVAG's regulatory capital base, making the group better placed for Basel III implementation. However, in Fitch's view, execution risks are still material and there are many uncertainties underlying the restructuring process. Also, if the final legal structure disadvantages certain bondholders (e.g. by creating a separate, not consolidated legal entity for non-core assets), then Fitch could take corresponding rating action.

After a brief recovery in 2010, VB-Verbund's profitability in 9M11 was negatively affected by write-downs on OeVAG's financial investments and participations. Fitch does not expect a return to sustainable profitability before the completion of the group's repositioning. In addition, the initiated restructuring of Volksbank Romania S.A. (the bank excluded from the VBI sale) is likely to act as an indirect constraint on the group's attempts to stabilise its underlying core profitability. In this context, the agency expects pressure on profitability to persist in 2012, impeding internal capital generation and making a repayment of government participation capital unlikely in the short to medium term.

VB-Verbund's risk profile is improving, but remains more vulnerable than most of its peers. The sale of OeVAG's generally poorer performing assets (through VBI) should improve asset quality and lead to more stable loan impairment charges. In the agency's view, the planned restructuring should also be positive for the group's risk profile.

VB-Verbund's and OeVAG's IDRs are solely based on Fitch's view of the availability of sovereign

support by the Republic of Austria ('AAA'/Stable). VB-Verbund's rating is at its Support Rating Floor. In Fitch's view, VB-Verbund's sizeable domestic market share will remain unaffected by the announced reorganisation and VB-Verbund will therefore continue to be systemically important for the Austrian economy. However, should the Austrian government's propensity to support the bank weaken or become constrained by legislative changes, then this would result in a downgrade of VB-Verbund's and OeVAG's IDRs.

VB-Verbund, which is not a legal entity itself but a cooperative grouping of member banks, is Austria's fourth-largest banking group. OeVAG is the central institution of VB-Verbund. 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 rating actions are as follows:

VB-Verbund

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

Short-term IDR: affirmed at 'F1'

Viability Rating: downgraded to 'bb-' from 'bb+'; RWN maintained

Individual Rating: downgraded to 'D' from 'C/D'; RWN maintained

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'

Support Rating Floor: affirmed at 'A'

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'. The full list of VB-Verbund member banks (in addition to OeVAG) 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 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 Niederoesterreich Sued eG
Volksbank Oberndorf rGmbH
Volksbank Obersdorf-Wolkersdorf-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
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Additional information is available at www.fitchratings.com. The ratings above were solicited by,

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Applicable criteria, 'Global Financial Institutions Rating Criteria', dated 16 August 2011, 'Rating Bank Regulatory Capital and Similar Securities', dated 15 December 2011 and 'Rating Criteria for Banking Structures backed by Mutual Support Mechanisms', dated 11 April 2011 are available at www.fitchratings.com.

Applicable Criteria and Related Research:

Global Financial Institutions Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=649171

Rating Bank Regulatory Capital and Similar Securities

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=656371

Rating Criteria for Banking Structures Backed by Mutual Support Mechanisms

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=591785

Volksbanken Verbund

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=595627

Oesterreichische Volksbanken Aktiengesellschaft

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=539484

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