

Austria
Credit AnalysisErste Bank der oesterreichischen
Sparkassen

Ratings

**Erste Bank der oesterreichischen
Sparkassen**

Long-Term	A
Short-Term	F1
Outlook	Stable

Individual	B/C
Support	1

Sovereign Risk

Foreign Long-Term	AAA
Local Long-Term	AAA
Outlook	Stable

Financial Data

Erste Bank der oesterreichischen Sparkassen

	30 Jun 2005	31 Dec 2004
Total Assets (USDm)	197,802.5	190,249.9
Total Assets (EURm)	152,660.0	139,681.8
Equity (EURm)	6,167.0	5,644.9
Op. Profit (EURm)	591.8	936.8
Net Income (EURm)	453.7	787.3
ROA (%)	0.62	0.59
ROE (%)	15.36	14.82
Tier 1 Ratio (%)	6.5	6.7

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Rating Rationale

- The ratings of Erste Bank der oesterreichischen Sparkassen AG ("Erste Bank") reflect satisfactory and sustainable profitability, moderate capitalisation, the bank's modest reserve coverage in its Austrian loan book and exposure to the untested economies of Central Europe ("CE").
- The improved, but still modest profitability of the Austrian business reflects fierce competition and sluggish domestic growth. Closer cooperation in the Austrian savings banks sector and more sales-oriented customer service are helping revenue generation, and further effort at cross-selling should bear fruit in the medium term. Cost control remains very tight in Austria.
- Slightly more than half of the pre-tax profit is being generated in CE, where Erste Bank has a well-established franchise. The restructuring at its largest subsidiaries in CE is now complete. There is still a substantial potential for additional revenues in CE through volume growth in light of falling interest spreads and fees generated from selling more sophisticated products; the scope for cost cuts is now somewhat limited.
- Erste Bank's risk profile is improving on the back of growing CE economies. With their entrance into the EU, these economies have become less volatile, although in some cases, the national legislative frameworks could be strengthened. Controls over risks at the CE subsidiaries are tight. Asset quality is healthy, with non-performing loans ("NPLs") being sufficiently provided for. However, accelerated loan growth in CE bears additional risks, given that these markets remain largely untested.
- In Austria, NPLs are still relatively high, at 7% of end-June 2005 gross domestic loans while reserve coverage is reliant on collateral.
- Market risk is low, mostly structural and closely monitored. Funding benefits from a stable retail deposit base, supported by two leading retail banks in CE.
- Capitalisation is adequate at the current rating level, but may weaken if an opportunity to expand further in CE arises, as this is a stated aim of the bank.

Support

- In Fitch Ratings' opinion, Erste Bank's significance to the Austrian banking system (around 20% of Austrian retail deposits and a third of consolidated banking assets) is such that there is an extremely high probability of support from the Austrian state, should this ever become necessary.

Rating Outlook and Key Rating Drivers

- The Stable Outlook reflects a good level of profitability, driven by the strategic acquisitions made since 2000, but also limited upside potential, given the relatively modest capital ratios.
- A demonstrated level of improved profitability in its Austrian market, combined with improved asset quality of its domestic loan book, would support a positive rating action. On the other hand, downward pressure could arise from deterioration in asset quality with the seasoning of its CE lending or a weakened capitalisation.

Background

- Erste Bank is Austria's second-largest banking group by assets. A savings bank in its own right, it acts as central institution for the Austrian savings banks. It has a strong domestic retail franchise and close relationships with small and medium-sized enterprises ("SMEs"). It is also active in wholesale banking, asset management, life assurance, broking and public-sector housing finance.
- The presence in CE encompasses Ceska sporitelna ("CS") and Slovenska sporitelna ("SLSP"), among the largest savings banks in the Czech Republic and Slovakia, with about a quarter of their countries' retail deposits. Erste Bank's Hungarian operations acquired Postabank in 2003 to create Erste Bank Hungary ("EBH") in 2004. In Croatia, Rijecka Banka, acquired in 2002, merged with Erste Bank's existing Croatian operations, creating Erste Bank Croatia ("EBC").
- At end-June 2005, Erste Bank's main shareholder, Die Erste oesterreichische Privatstiftung, ("EPS", formerly AVS, a foundation with limited resources), held 32.2% of its capital; the remainder is widely held.

■ PROFILE

- **Leading retail bank in CE**
- **Central institution of Austria's savings bank sector**
- **A third of domestic banking assets**

Primarily a domestic savings bank, Erste Bank has substantially expanded its distribution network throughout CE since 2000 while continuing to serve its core Austrian client base – SMEs and private individuals – for which it has developed a strong product portfolio. At end-June 2005, it employed 35,740 staff.

Austria: In its home market, Erste Bank acts as the central institution of the savings banks sector, comprising 58 savings banks. The Austrian division (1,022 branches and 14,685 staff at end-June 2005) consists of:

- **Savings Banks** includes the 47 savings banks that are part of the cross-guarantee system (see below). Erste Bank has improved coordination and cohesion within the sector, which has adopted a common corporate identity and logo, joint marketing initiatives and a unified IT platform. The banks follow common risk management standards and have harmonised processes for asset and liability management (“ALM”), budgeting and planning. Back-office functions and product development have also been centralised at Erste Bank. Further projects are underway, such as improving the early-warning system and rolling out software for customer relationship management. The geographical overlap in the branch network has been further reduced by Erste Bank transferring some branches back to local savings banks.
- **Retail and Mortgage** comprises retail and private banking, real-estate finance (i.e. lending to property developers, lessors, estate agents and private housing) and the three savings banks, majority-owned by Erste Bank. It also includes an asset manager, ERSTE-SPARINVEST KAG, with EUR22 billion of assets under management

(“AuM”) at end-2004 and a domestic market share of around 17%; a building and loans association; and a car leasing firm. Erste Bank also has a majority stake in the sector's insurance company, Sparkassen Versicherung AG, Austria's largest life insurer (AuM of EUR21.4bn at end-2004). Branch profitability is being reviewed, with Erste Bank aiming to cut the cost/income ratio to below 80%.

- **Large Corporates** are companies with a minimum turnover of EUR70m. Erste Bank offers structured finance, trade and export finance, project finance and leasing services both in Austria and abroad. The bank has relationships with c.300 of Austria's top 500 corporates.
- **Trading and Investment Banking** includes the bank's treasury, which is responsible for managing the balance sheet. Erste Bank, one of Austria's main providers of investment banking services for SMEs, offers capital market, corporate finance and M&A advisory services; however, it remains a small player in international terms.

Central Europe: With the extension into CE (see Table 1), Erste Bank has sought to overcome the restricted growth potential in its home market. So far, the bank has expanded only into countries where its SME customers have had business dealings; further acquisitions may follow, if opportunities arise. To date, acquisitions have centred on retail banks, with the aim of capturing at least 20% of market share. This is the case in the Czech Republic and Slovakia, where its group entities enjoy strong local franchises, whereas in Croatia and Hungary the local subsidiaries held market shares of c.10% and c.6% at end-2004. EBH is Hungary's second-largest retail bank.

In July 2005, Erste Bank acquired 83% of Serbia's Novosadska banka (“Nb”) from the Serbian government for EUR73 million; in the medium term, Erste Bank aims to grow Nb's market share to 10% from 2% and might consider further bolt-on acquisitions in the country. In addition, Erste Bank is looking at opportunities in Romania.

Table 1: Central European Operations – End-2004

Name	Year of Acquisition	% Held	Total Assets (EURm)	Equity (EURm)	Net Income (EURm)	Staff	Branches	RWA/Erste Bank RWA (%)
CS	2000	97.9	19,106	1,291	320	11,507	667	12.8
SLSP	2001	80.0	6,126	432	84	4,837	338	3.2
EBH	2003/2004	99.6	4,768	253	28	2,480	82	3.2
EBC*	2002	62.0	3,357	218	38	2,231	119	3.1
Erste Bank (c.)	-	-	139,682	6,355	787	35,740	2,370	-

RWA: Average risk-weighted assets; Total Assets, Equity and Net Income as reported by individual bank subsidiaries.

* Directly and indirectly held

Source: Banks' Annual Reports, data adapted by Fitch

International Business: This segment serves international large corporates, banks and public-sector entities and operates from the branches in London, New York and Hong Kong, as well as the international business unit in Vienna. Business focuses on trade, project and structured finance.

The Cross-Guarantee Mechanism (*Haftungsverbund*): Effective from 1 January 2002, Erste Bank set up a cross-guarantee mechanism. A steering company, with a required 51% minimum ownership by Erste Bank, implements and monitors common risk policies and is obliged to support a member bank in the event of severe financial difficulties. The steering company must provide support and has several options to rescue the troubled bank, including a change in the bank's strategy or management. Although the amount of available funds by the steering company is limited to a maximum cumulative amount of 1.5% of all members' risk-weighted assets, the banking regulator has approved full consolidation of the capital of all member savings banks (currently 50 entities, which together hold 94.4% of the savings bank sector's customer deposits). In Fitch's view, the capital of all member banks would be available to support any member within the group.

Presentation of Accounts: Erste Bank fully consolidates the Austrian savings banks of the *Haftungsverbund* in its financial statements and consequently deducts minority interests for entities not wholly owned. Since Fitch bases its analysis on net income before deductions of minority interests, its ratios may differ from those published by the bank. Since 1 January 2005, the bank has adopted the revised accounting standards IAS 32 and IAS 39, so H105 data are reported under full implementation of International Financial Reporting Standards ("IFRS").

■ PERFORMANCE

- **Steady performance, lifted by results in CE; CS is key contributor**
- **Target net income (post-minorities) of at least EUR660m in 2005**

Erste Bank's profitability in recent years largely reflects its several acquisitions in CE: their restructuring complete, they now represent half of net income. In Austria, competition remains fierce, but profit generation has started to improve, not only through good cost control but, more recently, also through improved earnings. Despite its retail focus Erste Bank's cost base is not particularly high; but its overall cost/income ratio is affected by the low efficiency of the Austrian savings banks and its domestic retail banking. Further initiatives have been launched to reduce costs, including an agreement on the domestic remuneration packages at Erste Bank and the Austrian savings banks, which should lead to long-term savings as automatic salary increases have stopped.

Results in 2004 and 2003 were somewhat distorted by restructuring measures at CS and SLSP in particular, but also benefited from releases of loan loss provisions following the substantial clean-up of the acquired CE banks' balance sheets as they were privatised. In 2004, Erste Bank's pre-tax profit was boosted by a EUR67m capital gain from the sale of a financial holding, as well as a further EUR88m gain on the sale of the Czech property insurance operations; these gains were largely off-set by booking provisions for pending legal cases, software write-offs and provisions for revaluation of real estate.

Austria: The rise in H105 pre-tax profit was primarily driven by an improved contribution from the Retail and Mortgage division, including some revaluation gains in the insurance company's securities portfolio; in addition, this division benefited from the previous years' restructuring of the SME portfolio, which is expected to break even in 2005. Healthy rises in net commission income from its large corporates and investment banking reflected higher volume for securities business and sale of insurance products. However, Trading and Investment Banking generated less net interest income from interest rate mismatches in H105. In Austria, risk provisions and administrative expenses

Table 2: Key Performance Indicators

(%)	Erste Bank			BACA*			RZB**		
	H105	2004	2003	H105	2004	2003	H105	2004	2003
Net Interest Margin	1.85	1.95	1.97	1.64	1.66	1.48	1.91	1.75	1.62
NIR/Operating Revenue	63.65	66.22	66.17	58.82	61.40	59.38	55.47	53.39	52.46
Cost/Income	62.27	65.85	67.15	61.58	65.79	70.81	55.58	60.48	65.65
Pre-Prov Operating Profit/Equity (Av.)	27.15	25.56	26.15	23.35	21.02	18.89	28.92	27.94	24.43
Operating Profit/Equity (Av.)	20.04	17.63	17.23	16.83	14.15	9.67	23.39	20.72	15.41
ROE	15.36	14.82	11.14	13.98	10.35	8.73	21.74	19.38	12.04
ROA	0.62	0.59	0.43	0.66	0.47	0.35	1.19	0.93	0.54
Tier 1 Ratio	6.50	6.70	6.30	7.85	7.85	7.80	9.8	9.20	7.50

* Bank Austria Creditanstalt AG;

** Raiffeisen Zentralbank Österreich AG

Source: Banks' interim and annual reports, data adapted by Fitch

remained more or less flat, and this trend is expected to continue, while the pressure on margins is unlikely to subside as the degree of competition is expected to remain intense and constrain domestic profitability levels. The scope for further cross-selling opportunities is substantial, an area Erste Bank is continuously working on.

CE: Erste Bank targets a ROE of 20% (according to the bank's calculation) for its CE subsidiaries. CS reported a 24% ROE in H105 and SLSP 20%. As the general trend in CE has seen a fall in interest rates, notably in the Czech Republic and Slovakia, the solid increase in net interest income is largely attributable to growth in loan volume, in particular in residential mortgage lending and consumer financing. In addition, all subsidiaries reported rises in net commission income on the back of higher fees from lending, payment services and card business; due to adverse public opinion, both CS and SLSP face the issue of being unable to increase their fee charges in the near future. Fitch would expect loan loss provisions to rise in the medium term as the current level of low credit costs reflects previous years' balance sheet clean-ups and appears unsustainable.

CS contributed around one-third to group operating profit in H105, but its operating income was boosted by the sale of available-for-sale securities. SLSP's net profit almost doubled to EUR43m. EBH aims to expand its branch network and is expected to invest in 28 branches and the re-configuration of 120 additional post offices, affecting its bottom-line profit in the short term; however its ROE is expected to remain above the targeted 20%. EBC's results no longer benefit from releases of loan loss provisions as in the past, but good volume growth is supporting net interest revenue. Erste Bank's market position in Serbia needs to grow in scale, but Nb is expected to break even in 2006.

International Business: Over the years, this division has delivered relatively stable revenues, mainly from loan syndications and buying debt in the capital markets.

RISK MANAGEMENT

- **Tight control over exposure to CE; now a quarter of credit exposure**
- **Domestic provisioning levels reliant on collateral value**
- **Market risk is low and mainly structural**

Overall, Erste Bank's risk appetite is moderate. Its main risks are credit and operational risks, the latter arising mainly from the group's extensive branch network in Austria and CE. However, operational

risk has been mitigated through the post-acquisition integration and restructuring of the CE subsidiaries.

Risk oversight and control across the whole group is undertaken by: the Group Risk Management Committee ("GRMC"), chaired by the Group Risk Officer and reporting directly to the Board, which is in charge of allocating group risk limits to the operating divisions; and the Group Risk Control department, which monitors and aggregates all risk (market, credit and operational). In general, controls over the CE banks and the Austrian savings banks appear relatively tight. Risk management processes are applicable to Austria and CEE.

Credit Risk: Credit approval procedures follow strict guidelines. For individuals, the bank uses a five-category rating system, to be extended to 10 grades by end-2005, based on a scoring model that includes behavioural scores. For corporates, Erste Bank uses 14 rating categories, based on default probabilities. The bank has developed a credit value-at-risk ("VaR") approach, using the CreditMetrics methodology (based on a one-year horizon and a 99.95 confidence level), which is also applied to credit exposure on its securities portfolio and derivatives. Centralised credit departments are responsible for credit approval within an existing loan approval hierarchy, dependent on size; loans in excess of EUR3m must be approved centrally. The bank is working with the Austrian savings banks on implementing Basel II and is planning to adopt the foundation Internal Rating Based ("IRB") approach in 2007 and to convert to the advanced IRB approach at a later stage. In 2004, Group Risk Control developed a model for standard risk cost, taking into account Basel II parameters for credit pricing; the model has been used at the parent bank since the beginning of 2005.

The rapid growth in Erste Bank's assets since 2000 reflects the various acquisitions and intra-group consolidations, while domestic loan volumes have been relatively stable. At end-June 2005, the aggregate credit risk exposure (including lending, interbank placements, securities portfolios, guarantees and documentary credits as well as the insurance division's investment portfolio) amounted to EUR145.2bn.

Domestic Exposure: This amounted to EUR67.8bn at end-June 2005, a slight increase from EUR64.6bn at end-2004. The breakdown at end-2004 was: 26% to private customers (including the savings banks' retail customers); 18% banks and insurance companies; 13% real estate sector; 10% public sector; 8% trade; 7% manufacturers; 5% construction sector; and 13% others. Overall, Erste Bank reported an increase in

retail lending, while lending to large corporates was flat. Its exposure to the still difficult SME sector was reduced to EUR1.5bn at end-2004. Exposure to the 20 largest corporate borrowers accounted for c.11% of end-2004 domestic corporate loan book, which is moderate and reflects the bank's focus on SMEs.

CE Exposure: Credit risk exposure to customers in CE amounted to EUR35.7bn at end-June 2005: 46% Czech Republic, 20% Hungary, 20% Slovak Republic, 10% Croatia and 4% Slovenia. Although corporates have been CE banks' major borrowers in the past, the focus has shifted to SMEs and private individuals. Loans to individuals have risen rapidly, although they still accounted for a relatively low 18% of CE exposure at end-2004. One of the prime areas for growth has been residential mortgage lending, where the credit policy provides for a maximum loan to value ratio of 70%, and consumer financing.

Other International Exposure: This amounted to EUR41.7bn at end-June 2005, including securities, interbank positions, credit derivatives, property financing, project finance and participations in the secondary market. Of this exposure, other European Union countries and other industrialised countries accounted for 91% while the remainder was spread over Asia (3%), Latin America (2%) and other emerging countries (c.4%).

Loan Loss Experience and Reserves: Overall, asset quality appears adequate, although NPL coverage ratios for Austria are somewhat below international standards (before collateral). After the EU enlargement in May 2004, the CE operating environment has become more stable, resulting in a gradually improving risk profile. NPLs are defined as loans where full repayment is unlikely; loans where interest/principal payments are past due more than 90 days; loans where a loss is incurred following restructuring; or loans where bankruptcy proceedings have been initiated. Exposures are classified as substandard if a loan is serviced but full payment is doubtful. At end-June 2005, total NPLs amounted to c.EUR3.9bn, 5% of gross loans, and were c.74% covered by loan loss reserves. In addition, the bank has classified a further EUR3bn as substandard.

Within the domestic portfolio, loan growth has been somewhat restricted by the difficult operating environment. Domestic NPLs (86% of end-June 2005 group NPLs) accounted for a relatively high 7% of end-June 2005 domestic loan book (excluding the public sector) and were 65% covered by loan loss reserves, with the remainder covered by collateral. A significant part thereof was held at the savings banks,

while other sectors affected included real estate, trade, hotel industry and manufacturing.

Asset quality at the CE banks is good following the balance-sheet clean-ups at CS, SLSP and EBC as part of their privatisations. At end-June 2005, CE NPLs totalled EUR474m and were fully covered by reserves. Loan portfolios in these regions are less seasoned, however, and may develop problem loans depending on the economic cycle or as they mature. Other international exposures classified as NPL were fully reserved.

Other Assets: The securities portfolio has grown with increased treasury activities and the insurance company's growing investment portfolio (c.EUR38bn fixed-income securities at end-June 2005, including EUR6.7bn of insurance assets). Of Erste Bank's aggregate fixed-income portfolio (excluding insurance assets), around EUR13.4bn was sovereign debt (including government, *quasi*-government and state-guaranteed obligations) practically all of which was investment grade; over EUR31bn of the portfolio is to investment-grade counterparties. At end-June 2005, around 51% of the securities were held in the investment portfolio, with 12% in the trading portfolio and the remainder held for liquidity management. The structure of the balance sheet reflects Erste Bank's role as liquidity provider to its savings banks. Interbank assets (13% of end-June 2005 assets) related mainly to foreign banks. The latter were of good credit quality, with nearly 98% to investment grade counterparties and less than 0.2% of this exposure being classified as NPL at end-June 2005. The positive replacement value of Erste Bank's derivatives at end-2004 amounted to EUR10.3bn, which is high relative to its equity base. The vast majority relates to interest rate products. A rating based limit system is in place for the counterparty selection, but the vast majority of counterparties is investment grade. The bank has some credit default swaps in its trading book, which are subject to the existing limits monitored by the Treasury department.

Operational Risk: The restructuring of subsidiaries and the harmonisation of the group's IT platform have improved the group's overall infrastructure. Nevertheless, there is operational risk in its substantial branch network and presence in CE. The bank is making preparations to adopt the Advanced Measurement Approach, but a final decision on which approach to use has to be made. Erste Bank performs a quarterly VaR calculation at the parent bank, using a model developed in-house. It has collected loss data since 1998 at the parent bank and since 2002 at group level, with a newly developed

tool for data collection introduced in 2004. Currently, Erste Bank uses no external loss database.

Market Risk and ALM: The Market Risk Committee allocates global risk limits, as determined by the Risk Committee, to the individual units. Compliance with the limits is verified by the appropriate local risk management unit and by the Group Risk Control unit. Risk is calculated using a VaR approach (99% confidence level and holding periods of one and 10 days) based on two years' historical data. Calculations are routinely back-tested and subjected to stress scenarios.

Market risk relating to the banking book is measured by Treasury and managed by the Asset and Liability Committee ("ALCO"). Monthly ALCO meetings, attended by the Board, Group Treasury, the Controlling and Accounting departments, are held to monitor and manage the interest-rate risk at group level. The group's ALM software is currently being upgraded. The market risk in Erste Bank's banking book (VaR of EUR29.4m at end-March 2005, based on a one-day holding period) is higher than in its trading book (VaR of EUR3m at end-March 2005) due to the structural interest-rate mismatch in the duration of banking assets and liabilities, as it is typical for retail banks. The banking book VaR is generally confined to the fixed-rate deposits of CS, SLSP's sizeable portfolio of fixed-rate government bonds and the Austrian savings banks' investments in fixed-income bonds. FX risk is generally hedged.

The VaR limits for the trading book have been relatively low at EUR18m (i.e. c.EUR57m based on a 10-day holding period, and equivalent to 0.9% of end-June 2005 equity). Erste Bank also calculates a VaR for its hedge-fund exposure, which amounted to EUR3.3m at end-March 2005. Trading activities are primarily carried out in Austria, CE, New York and Hong Kong. To calculate the capital adequacy for the trading books, the Austrian banking regulator has approved the use of the same model across all trading portfolios, including CE subsidiaries. The bank trades in all major instruments, including derivatives, the latter being primarily over-the-counter interest rate swaps and FX options. Trading market risk is reported on-line by the separate units, and controlled on a daily basis by Vienna.

■ FUNDING AND CAPITAL

- Large retail funding base
- Tier 1 ratio not strong but adequate

Funding: The group has access to a broad and relatively stable retail deposit base through the Austrian savings banks and the CE banking operations. At end-June 2005, customer deposits represented just under half of total liabilities, with a large part in the form of savings accounts. Erste Bank's wholesale funding reflects its role as central institution and liquidity provider in the savings bank sector. Under the Haftungsverbund agreement, member savings banks are legally obliged to keep excess liquidity at Erste Bank (end-2004: EUR3.9bn). To lengthen its funding maturity profile, Erste Bank has a EUR15bn debt issuance programme in place. Under the Austrian mortgage banking law that came into effect in June 2005, Erste Bank can issue covered bonds backed by mortgages.

The bank's treasury unit monitors liquidity on a group basis and across currencies. There is currently an FX restriction on the deployment of excess funds in some of the CE subsidiaries, but this should change in the long term with the introduction of the euro in the countries concerned. Erste Bank also provides ALM consultancy services to 45 Austrian savings banks and has produced, in accordance with the requirements of Basel II, liquidity guidelines for managing liquidity at group level.

Capital: The bank's Tier 1 capital ratio is expected to remain in the 6.5%-7% range in the foreseeable future. This is satisfactory but not strong, particularly in relation to the bank's risk profile and its aim to expand its coverage of CE. Despite some progress made, CE and eastern Europe still have different inherent risks than more mature European banking markets.

The several acquisitions have weakened Erste Bank's capital adequacy ratios; however, the bank's strong earnings base has improved its internal capital generation. In addition, Erste Bank strives to achieve a 100% ownership of its CE acquisitions, where possible, to better allocate group capital. At end-June 2005, the bank had around EUR1.8bn of goodwill, which, although no longer amortised, will continue to strain its equity base. Since 2000, the bank has undertaken a number of Tier 1 hybrid capital issues, a weaker form of capital in Fitch's view; by end-June 2005, the total amount was equivalent to 17% of "pure equity" or c.20% of Tier 1 capital – still acceptable levels in Fitch's view.

Divisional Performance

	Savings Banks		Retail and Mortgage		Large Corporates		Trading & Investment		Total Austria	
Austria (EURm)	H105	H104	H105	H104	H105	H104	H105	H104	H105	H104
Net Interest Income	409.1	409.6	257.3	257.0	73.0	74.2	33.2	52.1	772.6	792.9
Loan Loss Provisions	-86.8	-87.0	-52.6	-56.8	-28.9	-25.0	-	-	-168.3	-168.8
Net Commission Income	167.6	164.5	154.5	138.9	35.4	29.0	37.8	27.8	395.3	360.2
Net Trading Result	7.8	8.9	5.0	5.6	0.7	0.5	43.9	47.8	57.4	62.8
General Administrative Expenses	-412.6	-410.2	-314.6	-321.3	-42.6	-40.6	-45.3	-47.3	-815.1	-819.4
Income from Insurance Operations	-	-	23.1	9.7	-	-	-	-	23.1	9.7
Other Operating Result	-4.4	14.3	5.3	-0.8	0.9	8.9	-1.4	-2.8	0.4	19.6
Pre-Tax Profit	80.6	100.1	77.9	32.2	38.5	47.0	68.3	77.7	265.3	257.1
Less Taxes	-21.6	-28.4	-18.8	-9.1	-9.4	-10.6	-17.9	-19.9	-67.8	-68.1
Net Income	59.0	71.7	59.1	23.1	29.1	36.4	50.4	57.8	197.5	189.0
Average RWA	23,453.7	22,797.5	12,023.1	12,687.3	6,530.0	6,678.0	3,662.0	3,818.6	45,668.8	45,981.5
Allocated Equity	249.5	214.8	914.1	819.2	496.4	431.2	278.4	246.6	1,938.4	1,711.8
Return on RWA (%)	0.50	0.63	0.98	0.36	0.89	1.09	2.75	3.03	0.86	0.82
Return on Allocated Equity	47.29	66.76	12.93	5.64	11.72	16.88	36.21	46.88	20.38	22.08

	CS		SLSP		EBH*		EBC		Total CE	
Central Europe (EURm)	H105	H104	H105	H104	H105	H104	H105	H104	H105	H104
Net Interest Income	287.6	244.7	92.8	92.5	97.6	80.8	57.1	39.3	535.1	457.3
Loan Loss Provisions	-13.4	-12.3	-5.1	3.1	-9.2	-8.8	-4.3	2.1	-31.9	-16.0
Net Commission Income	144.7	125.9	41.1	32.2	29.7	23.6	10.0	7.4	225.4	189.1
Net Trading Result	21.6	25.4	7.5	7.0	17.4	9.5	-0.6	6.0	45.8	47.9
General Administrative Expenses	-267.3	-242.3	-83.9	-77.3	-86.7	-83.5	-34.3	-30.6	-472.2	-433.6
Income from Insurance Operations	3.8	3.3	-	-	-	-	-	-	3.8	3.3
Other Operating Result	22.1	-5.8	-2.5	-11.8	-10.3	-6.6	-1.9	0.2	7.4	-23.9
Pre-Tax Profit	199.1	138.9	49.9	45.8	38.5	15.0	25.9	24.5	313.4	224.2
Less Taxes	-52.6	-39.8	-6.5	-6.8	-7.4	0.3	-4.9	-4.5	-71.4	-50.9
Net Income	146.5	99.1	43.4	39.0	31.1	15.2	21.0	20.0	242.0	173.3
Average RWA	8,653.0	7,021.8	2,181.2	1,715.6	2,190.7	1,909.7	2,095.9	1,715.5	15,120.9	12,362.5
Allocated Equity	657.9	453.4	165.8	110.8	166.6	123.3	159.3	110.8	1,149.6	798.2
Return on RWA (%)	3.39	2.82	3.98	4.55	2.84	1.59	2.00	2.33	3.20	2.80
Return on Allocated Equity (%)	44.54	43.71	52.35	70.40	37.33	24.66	26.37	36.10	42.10	43.42

* H105 results have been annualised where appropriate

Source: Erste Bank data, adapted by Fitch

Divisional Performance

International Business	H105	H104
Net Interest Income	75.1	74.2
Loan Loss Provisions	-9.9	-12.1
Net Commission Income	15.8	10.9
Net Trading Result	-0.2	0.1
General Administrative Expenses	-17.9	-15.3
Income from Insurance Operations	-	-
Other Operating Result	2.3	-3.2
Pre-Tax Profit	65.2	54.6
Less Taxes	-18.7	-11.4
Net Income	46.5	43.2
Average RWA	6,308.4	6,200.3
Allocated Equity	479.6	400.3
Return on RWA (%)	1.47	1.39
Return on Allocated Equity (%)	19.39	21.58
Corporate Centre	H105	H104
Net Interest Income	3.8	-5.9
Loan Loss Provisions	0.2	0.1
Net Commission Income	-19.4	3.3
Net Trading Result	2.1	-2.5
General Administrative Expenses	-17.9	-24.9
Income from Insurance Operations	-	-
Other Operating Result	-19.6	-1.8
Pre-Tax Profit	-50.7	-31.6
Less Taxes	18.4	-11.2
Net Income	-32.3	-42.8
Average RWA	321.9	474.0
Allocated Equity	24.5	30.6
Return on RWA (%)	n.m.	n.m.
Return on Allocated Equity (%)	n.m.	n.m.
Total	H105	H104
Net Interest Income	1,386.5	1,318.5
Loan Loss Provisions	-209.9	-196.8
Net Commission Income	617.0	563.6
Net Trading Result	105.2	108.3
General Administrative Expenses	-1,323.1	-1,293.1
Income from Insurance Operations	26.9	13.1
Other Operating Result	-9.4	-9.3
Pre-Tax Profit	593.2	504.3
Less Taxes	-139.5	-141.5
Net Income	453.7	362.8
Average RWA	66,898	63,786
Return on RWA (%)	1.36	1.14

Source: Erste Bank data, adapted by Fitch

Balance Sheet Analysis

ERSTE BANK DER OESTERREICHISCHEN SPARKASSEN (C.)

	30/06/2005				31 Dec 2004		31 Dec 2003		31 Dec 2002	
	6 Months - Interim USDm Original	6 Months - Interim EURm Original	As % of Assets Original	Average EURm Original	Year End EURm Original	As % of Assets Original	Year End EURm Original	As % of Assets Original	Year End EURm Original	As % of Assets Original
A. LOANS										
1. Loans and Advances > 5 years	100,063.5	77,227.0	50.59	53,068.9	28,910.8	20.70	26,398.2	20.53	25,615.9	21.13
2. Loans and Advances 1 - 5 years	n.a.	n.a.	-	n.a.	20,374.0	14.59	19,365.0	15.06	17,979.0	14.83
3. Loans and Advances < 1 year	n.a.	n.a.	-	n.a.	23,437.0	16.78	22,003.0	17.11	20,841.0	17.19
4. (Loan Loss Reserves)	3,704.4	2,859.0	1.87	2,803.9	2,748.8	1.97	2,771.7	2.16	2,983.0	2.46
TOTAL A	96,359.1	74,368.0	48.71	72,170.5	69,973.0	50.09	64,994.5	50.55	61,452.9	50.69
B. OTHER EARNING ASSETS										
1. Interbank Assets	25,706.8	19,840.0	13.00	17,676.7	15,513.3	11.11	13,140.0	10.22	15,492.4	12.78
2. Short-term Investments	5,444.6	4,202.0	2.75	3,808.0	3,414.0	2.44	4,220.0	3.28	2,606.0	2.15
3. Other Investments	53,225.0	41,078.0	26.91	39,299.9	37,521.7	26.86	33,336.7	25.93	28,844.7	23.79
4. Equity Investments	n.a.	n.a.	-	n.a.	486.0	0.35	497.0	0.39	463.0	0.38
TOTAL B	84,376.4	65,120.0	42.66	61,027.5	56,935.0	40.76	51,193.7	39.82	47,406.1	39.11
C. TOTAL EARNING ASSETS	180,735.4	139,488.0	91.37	133,198.0	126,908.0	90.86	116,188.2	90.37	108,859.0	89.80
D. FIXED ASSETS	2,187.2	1,688.0	1.11	1,705.3	1,722.6	1.23	1,814.2	1.41	1,866.0	1.54
E. NON-EARNING ASSETS										
1. Cash and due from banks	3,191.3	2,463.0	1.61	2,593.0	2,722.9	1.95	2,548.8	1.98	3,181.0	2.62
2. Other	11,688.6	9,021.0	5.91	8,674.7	8,328.3	5.96	8,024.1	6.24	7,316.3	6.04
F. TOTAL ASSETS	197,802.5	152,660.0	100.00	146,170.9	139,681.8	100.00	128,575.3	100.00	121,222.3	100.00
G. DEPOSITS & MONEY MARKET FUNDING										
1. Demand Deposits	n.a.	n.a.	-	n.a.	25,403.0	18.19	23,282.0	18.11	21,383.0	17.64
2. Savings Deposits	48,894.8	37,736.0	24.72	37,847.5	37,959.0	27.18	37,335.0	29.04	36,880.0	30.42
3. Time Deposits	43,262.3	33,389.0	21.87	19,119.8	4,850.5	3.47	4,221.8	3.28	3,045.0	2.51
4. Interbank Deposits	46,103.8	35,582.0	23.31	32,066.7	28,551.3	20.44	25,703.9	19.99	26,424.0	21.80
5. Other Short-term Funding	n.a.	n.a.	-	n.a.	440.0	0.32	202.0	0.16	47.0	0.04
TOTAL G	138,260.9	106,707.0	69.90	101,955.4	97,203.8	69.59	90,744.7	70.58	87,779.0	72.41
H. OTHER FUNDING										
1. Long-term debt	25,747.0	19,871.0	13.02	19,659.0	19,447.0	13.92	16,777.1	13.05	14,148.8	11.67
2. Subordinated debt	4,186.4	3,231.0	2.12	2,212.7	1,194.3	0.86	1,398.7	1.09	1,759.6	1.45
3. Hybrid Capital	1,179.1	910.0	0.60	1,737.0	2,564.0	1.84	2,701.0	2.10	2,090.0	1.72
TOTAL H	31,112.5	24,012.0	15.73	23,608.7	23,205.3	16.61	20,876.8	16.24	17,998.4	14.85
I. OTHER (Non-int. bearing)	20,438.5	15,774.0	10.33	14,622.9	13,471.8	9.64	11,888.0	9.25	10,701.9	8.83
J. LOAN LOSS RESERVES	n.a.	n.a.	-	n.a.	156.0	0.11	83.0	0.06	81.0	0.07
K. OTHER RESERVES	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
L. EQUITY										
1. Preference Shares	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
2. Common Equity	7,990.6	6,167.0	4.04	5,906.0	5,644.9	4.04	4,982.8	3.88	4,662.0	3.85
TOTAL L	7,990.6	6,167.0	4.04	5,906.0	5,644.9	4.04	4,982.8	3.88	4,662.0	3.85
M. TOTAL LIABILITIES AND EQUITY	197,802.5	152,660.0	100.00	146,170.9	139,681.8	100.00	128,575.3	100.00	121,222.3	100.00

Exchange Rate

USD1 = EUR 0.7718

USD1 = EUR 0.7342

USD1 = EUR 0.7918

USD1 = EUR 0.9536

Income Statement Analysis

ERSTE BANK DER OESTERREICHISCHEN SPARKASSEN (C.)

	30/06/2005		31 Dec 2004		31 Dec 2003		31 Dec 2002	
	Income Expenses	As % of Total AV Earning Assts	Income Expenses	As % of Total AV Earning Assts	Income Expenses	As % of Total AV Earning Assts	Income Expenses	As % of Total AV Earning Assts
	EURm Original	Original	EURm Original	Original	EURm Original	Original	EURm Original	Original
1. Interest Income	2,761.1	4.15	5,149.6	4.24	5,085.3	4.52	5,612.2	6.05
2. Interest Expense	1,408.7	2.12	2,533.3	2.08	2,622.7	2.33	3,236.6	3.49
3. NET INTEREST REVENUE	1,352.4	2.03	2,616.3	2.15	2,462.6	2.19	2,375.6	2.56
4. Net Fees & Commissions	617.0	0.93	1,141.0	0.94	996.6	0.89	944.3	1.02
5. Other Operating Income	155.4	0.23	193.9	0.16	262.6	0.23	191.0	0.21
6. Personnel Expenses	761.4	1.14	1,480.4	1.22	1,422.3	1.26	1,373.2	1.48
7. Other Operating Expenses	561.7	0.84	1,112.5	0.92	1,038.5	0.92	1,058.8	1.14
8. Loan Loss Provisions	209.9	0.32	421.5	0.35	430.0	0.38	421.4	0.45
9. OPERATING PROFIT	591.8	0.89	936.8	0.77	831.0	0.74	657.5	0.71
10. IAS 39 Adjustments	n.a.	-	n.a.	-	n.a.	-	n.a.	-
11. Other Income and Expenses	1.4	0.00	-46.1	-0.04	-49.4	-0.04	-45.2	-0.05
12. PROFIT BEFORE EXCEPTIONAL ITEMS	593.2	0.89	890.7	0.73	781.6	0.69	612.3	0.66
13. Exceptional Items	n.a.	-	188.5	0.16	-9.3	-0.01	65.0	0.07
14. PRE-TAX PROFIT	593.2	0.89	1,079.2	0.89	772.3	0.69	677.3	0.73
15. Taxes	139.5	0.21	291.9	0.24	234.9	0.21	164.1	0.18
16. Published Net Income Including Minorities	453.7	0.68	787.3	0.65	537.4	0.48	513.2	0.55
17. FITCH NET INCOME	453.7	0.68	787.3	0.65	537.4	0.48	513.2	0.55

Ratio Analysis

ERSTE BANK DER OESTERREICHISCHEN SPARKASSEN (C.)

		30/06/2005	31 Dec 2004	31 Dec 2003	31 Dec 2002
		Original	Original	Original	Original
I PROFITABILITY LEVEL					
1. Pre-Prov. Operating Profit/Equity (av.)	%	27.15	25.56	26.15	27.80
2. Operating Profit/Equity (av.)	%	20.04	17.63	17.23	16.94
3. Operating Profit/Assets (av.)	%	0.81	0.70	0.67	0.63
4. Net Income/Equity (av.)	%	15.36	14.82	11.14	13.22
5. Net Income/Assets (av.)	%	0.62	0.59	0.43	0.50
6. Non-int. Expenses/Operating Revenue	%	62.27	65.85	67.15	69.72
7. Net interest Rev./Assets (av.)	%	1.85	1.95	1.97	2.29
II CAPITAL ADEQUACY					
1. Internal Capital Generation	%	15.36	12.56	9.28	11.31
2. Equity/Assets	%	4.04	4.04	3.88	3.85
3. Equity/Net Loans	%	8.29	8.07	7.67	7.59
4. Capital/Risks -Tier 1	%	6.50	6.70	6.30	6.30
5. Capital/Risks - Total	%	10.20	10.70	10.70	11.00
6. Common Equity/Assets	%	4.04	4.04	3.88	3.85
III LIQUIDITY					
1. Liquid Assets/Deposits & Money Mkt Funding	%	2.31	15.79	14.13	16.36
2. Liquid Assets & Marketable Debt					
Securities/Deposits & Money Mkt Funding	%	50.52	48.87	47.58	46.25
3. Net Loans/Deposits & Money Mkt Funding	%	69.69	71.99	71.62	70.01
IV ASSET QUALITY					
1. Loan Loss Provisions/Gross Loans	%	0.27	0.58	0.63	0.65
2. Loan Loss Provisions/Pre-tax Profit before Provisions	%	26.14	28.09	35.76	38.35
3. Spec. & Earmarked Gen. Loan Loss Reserves/Gross Impaired Loans	%	n.a.	70.86	68.64	72.40
4. Loan Loss Reserves/Gross Loans	%	3.70	3.78	4.09	4.63
5. Gross Impaired Loans/Gross Loans	%	n.a.	5.33	5.96	6.39

Erste Bank der oesterreichischen Sparkassen: September 2005

Spread Sheet Annex

ERSTE BANK DER OESTERREICHISCHEN SPARKASSEN (C.)

EURm	30/06/2005 Original	31 Dec 2004 Original	31 Dec 2003 Original	31 Dec 2002 Original
1. OTHER NET OPERATING INCOME				
1. Other operating income	70.8	104.3	139.8	106.9
2. Other operating expense	102.0	258.5	230.3	185.2
3. Rental income	34.1	65.5	67.3	64.9
4. Recoveries	n.a.	15.3	23.6	15.0
5. Operating profit from equity accounted group companies	n.a.	13.7	56.9	22.5
6. Other risk provisions	n.a.	23.8	18.9	-4.5
TOTAL (1-2+3+4+5-6)	2.9	-83.5	38.4	28.6
2. TRADING PROFIT				
1. Trading profit on securities	55.8	89.9	97.6	64.5
2. Trading profit on foreign exchange	49.4	126.6	117.0	102.9
3. Profits from revaluation/sales of securities - held for sale	47.3	60.9	9.6	n.a.
4. Losses/write-down revaluation/sales of securities - held for sale	n.a.	n.a.	n.a.	5.0
TOTAL (1+2+3-4)	152.5	277.4	224.2	162.4
3. AUSTRIAN CAPITAL ADEQUACY RATIOS				
Tier 1 capital	4,462.0	4,377.0	3,912.0	3,800.0
Total capital	7,302.0	7,286.0	7,009.0	6,983.0
Weighted risks	68,411.0	65,384.0	62,188.0	60,257.0
4. DISTRIBUTIONS DEDUCTED FROM EQUITY AND INTERNAL CAPITAL GENERATION				
Dividend	n.a.	120.0	90.0	74.2
5. NET INCOME IN USD MLN AT YEAR END RATES				
	587.9	1,072.4	678.7	538.2
6. EXTERNAL AUDITORS: Sparkassen-Prüfungsverband; Deloitte Wirtschaftsprüfungs GmbH.				

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