

## **Fitch Affirms Austria's Erste Bank at 'A'**

Fitch Ratings-London/Frankfurt-21 September 2006: Fitch Ratings has today affirmed Austria-based Erste Bank der oesterreichischen Sparkassen's ("Erste Bank") ratings at Issuer Default 'A', Short-term 'F1', Individual 'B/C' and Support '1'. The Outlook remains Stable.

The Issuer Default, Short-term and Individual ratings reflect Erste Bank's sustainable profitability and strong retail banking franchise at home and in some countries in Central Europe ("CE"). They also reflect moderate capitalisation and exposure to the untested economies in CE.

The Stable Outlook on the Issuer Default rating reflects Fitch's view that Erste Bank will successfully address the execution risk of integrating Banca Comerciala Romana S.A. ("BCR", rated 'BBB-' (BBB minus)) and maintain an adequate capitalisation for its current rating level. A further improvement in profitability in its Austrian market and asset quality of its domestic loan book would support a positive rating action. However, given the still difficult domestic operating environment, this remains challenging.

"Erste Bank's performance is benefiting from the sound profitability at its largest subsidiaries in CE. The operations in CE generate almost half of the group's pre-tax profit, and Fitch considers the scope for additional revenues through volume growth and the sale of more sophisticated, fee-based products to be substantial," says Michael Steinbarth, in Fitch's Financial Institutions Group. "The acquisition of a 62% stake in BCR adds a large growth market and strengthens Erste Bank's regional franchise." The high purchase price for BCR reflects the scarcity of remaining investment opportunities in the region as well as BCR's leading market position in Romania.

Completion of the BCR takeover is taking longer than anticipated due to a lengthy regulatory approval process. However, Erste Bank has an established track record in integrating acquired businesses. Fitch expects the bank to replicate its business model at BCR and to centre BCR's retail banking strategy on Erste Bank group's experience.

To finance the acquisition of BCR, Erste Bank undertook a substantial ordinary share capital issue of EUR2.7 billion in early 2006. On completion of the transaction, Erste Bank expects its Tier 1 ratio to fall to a minimum of 6% at end-2006. Fitch considers capitalisation to be stretched and therefore views positively management's plan to achieve a consolidated Tier 1 capital ratio in the range of 6.5% to 7.5% at end-2008.

Risk controls at the CE subsidiaries are tight. Overall, the bank's risk profile is improving on the back of the growing CE economies. With their entry into the EU, these economies are expected to converge with the more mature EU economies, reducing their volatility although in some cases, the national legislative frameworks could be strengthened. However, accelerated loan growth in CE could increase risks, given that these markets remain largely untested.

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