

Austria's Erste Bank S-T Rating Raised To 'A-1' On Reduced BCR Integration Risk

Rationale

On Nov. 17, 2006, Standard & Poor's Ratings Services raised to 'A-1' from 'A-2' its short-term ratings on Austria-based Erste Bank der oesterreichischen Sparkassen AG (Erste Bank).

The rating action reflects our increasing comfort with the integration risk linked to the acquisition of Banca Comerciala Romana (BCR; BBB-/Stable/—), Romania's largest bank. It also reflects the steady progress in the group's profitability, and improvements in the industry and economic risk concerning its operations in Central and Eastern Europe (CEE).

Almost one year after the announcement of the takeover, no unexpected risks have emerged at BCR, which Standard & Poor's views as positive. Although the closing of the transaction was delayed for several months until early October 2006, Erste Bank had full access to BCR, and was able to launch several pre-closing integration projects. BCR represents a large acquisition for Erste Bank, but we are confident of its ability to address integration risk based on its strong track record of integrating other institutions in CEE. Even if the business plan for BCR remains ambitious and relies on a continued favorable environment in Romania, muted cost growth, and low risk charges, BCR should achieve good levels of growth. The integration of Romania into the EU on Jan. 1, 2007, should also have a beneficial stabilizing effect on BCR's operating environment.

Erste Bank is well positioned to benefit from the higher-than-average growth opportunities in CEE, but is also exposed to the still higher-than-average economic and industry risk. These risks are abating as these economies continue maturing, however, and are adequately rewarded by higher returns. Moreover, most of Erste Bank's operations in CEE are in EU member states.

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Publication Date

Nov. 17, 2006

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The Erste Bank group continues to make steady progress in improving its profitability. CEE remains the key growth driver, benefiting from strong loan demand and further efficiency gains, but Erste Bank's domestic operations also demonstrate continued progress albeit from low levels.

The ratings are based on our view of Erste Bank and the Austrian savings banks as a single economic group; the group's prominent market position in Austria and in several CEE countries; and the expectation of continued profitability improvements. This is partly offset by modest capital levels as a result of its acquisition strategy; its still moderate earnings levels in the competitive Austrian market despite improvements; and the group's ambitious growth targets, which rely to a significant degree on a continued positive prospects for CEE.

Standard & Poor's will continue to monitor the success of BCR's integration into Erste Bank group and the speed at which operating earnings improve at BCR. Material deviations from Erste Bank's earnings targets for BCR, or further sizable acquisitions, which would delay the rebuilding of capital ratios, would be viewed negatively.

Stronger capitalization, further reduction in the economic and industry risk in CEE, and major progress in the integration process and profitability of BCR could be positive for the rating. However, an upgrade to 'A-1+' is unlikely in the short to medium term.

Ratings List

	To	From
<i>Erste Bank der oesterreichischen Sparkassen</i>		
Counterparty credit rating	—/—/A-1	—/—/A-2
CP	A-1	A-2
<i>Erste Finance (Delaware) LLC</i>		
CP*	A-1	A-2

*Guaranteed by Erste Bank der oesterreichischen Sparkassen.

NB: This list does not include all ratings affected.

Ratings information is available to subscribers of RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at www.ratingsdirect.com. It can also be found on Standard & Poor's public Web site at www.standardandpoors.com; under Credit Ratings in the left navigation bar, select Find a Rating, then Credit Ratings Search. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office Hotline (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow (7) 495-783-4017. Members of the media may also contact the European Press Office via e-mail on: media_europe@standardandpoors.com.

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