

Erste Bank wins bid for Romania's BCR

Clear market leader in Romania

The Romanian privatization agency AVAS tonight accepted the bid from Erste Bank der oesterreichischen Sparkassen AG for 61.8825% of the shares of Banca Comerciala Romana S.A. (BCR), Romania's largest bank. The sale marks the completion of a two-stage privatization process in which nine European banks originally competed. The share purchase agreement will be signed on 21 December 2005 and the transaction is expected to close in the second quarter of 2006.

Details of the transaction

Erste Bank is acquiring a majority interest in BCR for EUR 3.75 billion, buying a 36.8825% stake from the Romanian government, 12.5% +1 share from the EBRD and 12.5% +1 share from the IFC. If based on the 30 June 2005 book value reported by BCR of EUR 1,037 bn, this would translate into a price/book multiple of 5.8. Pursuant to its current business plan for BCR, Erste Bank targets a return on investment (excluding funding costs) of around 10% from 2009 onwards.

Erste Bank was able to negotiate a series of favourable terms in the share purchase agreement, particularly representations and warranties which provide protection for up to 60% of the purchase price for 62% of BCR. The share purchase agreement furthermore grants Erste Bank immediate access to and influence over BCR. Erste Bank will establish a Transition Consultancy Committee (TCC) consisting of 10 individuals nominated by Erste Bank. The members of the TCC will have full access to BCR from 22 December 2005. Two members of the TCC have the right to attend all meetings of the Executive Board, Supervisory Board and Shareholder Meetings of BCR as non-voting observers.

"BCR is the undisputed market leader in Romania and perfectly complements our existing network in Central and Eastern Europe. We are proud to be the winner of this very well conducted tender process. It is a recognition of the value of our strategy and track record in Central and Eastern Europe", said Andreas Treichl, Chief Executive Officer of Erste Bank, in an initial statement. "We are also keenly aware of the responsibility we have assumed for 2.8 million clients, more than 12,000 employees and this important component of the overall Romanian economy", added Treichl. He also congratulated the Romanian government on the fair, open and transparent nature of the tender process.

With the purchase of BCR, Erste Bank Group adds one of the largest growth markets of the region to its existing network in the Czech Republic, Slovakia, Hungary, Croatia, Serbia and Austria. With a new total of 15.3 million customers, the Group will significantly strengthen its position as one of the leading financial institutions in Central and Eastern Europe. "We will now operate in a market with almost 70 million inhabitants, in which our group has a retail market share of over 20%", concluded Treichl.

Romania is a strong growth market

With a GDP per capita of around EUR 2,700 in 2004 and a ratio of bank assets to gross domestic product of less than 40%, Romania is significantly less developed than the economies and banking markets of EU countries and some of the CEE countries where Erste Bank has already established a leading presence. Erste Bank is convinced that such a low level of banking penetration will result in a substantial long-term growth potential as the Romanian market

converges with the more developed parts of Europe. Considerable growth potential is expected in corporate banking, consumer credit, savings deposits, bank cards and asset management.

Erste Bank and BCR

BCR reported total assets under IFRS of EUR 6.36 billion as of 31 December 2004 and reported a net profit of EUR 157 million for 2004. Its cost income ratio was 54% and its return on equity 17%. Through a nation-wide network of 339 branches, the bank's more than 12,000 employees serve an estimated 2.5 million retail customers and around 300,000 corporate customers. BCR operates the largest ATM network in Romania and is a leading partner of credit card companies in Romania. With EUR 1.3 billion of loans to retail customers and EUR 2.4 billion of loans to corporate customers as of 30 June 2005 BCR is the leading Romanian lender to retail as well as corporate customers.

The total assets under IFRS of Erste Bank Group at the end of June 2005 were EUR 152.66 billion, BCR reported total assets of EUR 7.70 billion. As of 30 of June 2005 Erste Bank Group had a total gross customer loan portfolio of EUR 77.23 billion, while BCR reported EUR 3.68 billion at the same date. In the first half of 2005 Erste Bank Group had a net income of EUR 336 million, with BCR reporting EUR 102 million.

With the acquisition of the Romanian bank, the number of Erste Bank customers will increase by an estimated 22%. The number of branches will grow by 14% from 2,369 to 2,708, and the potential customer base will be expanded from 46 million to 68 million people.

Integration of BCR into Erste Bank Group

As in its nine previous acquisitions in CEE, Erste Bank will launch an integration and restructuring programme at BCR. The main aim of this programme is to implement extensive revenue enhancement measures, to centralise and optimise the back office functions and to optimise the branch network and the workforce.

The long-term targets include reducing the cost-income ratio from 54% to below 48% in 2009 and increasing the return on equity from 17% to above 35%¹. Erste Bank plans an investment programme of EUR 100 million over the next three years to improve BCR's retail network and the IT infrastructure. Integration costs of EUR 90 million are expected to be recognised in 2006. Net Asset Value adjustments of EUR 100 million for loan loss provisions and EUR 100 million for other NAV adjustments primarily related to tax issues are currently anticipated in 2006.

Targets

Based on this acquisition Erste Bank is changing its targets. The previously announced targeted average growth rate of the net profit for the period from 2005 to 2008 of 15% that was previously announced will now be increased to above 20% for the period 2005-2009. Erste Bank targets a cost/income ratio of lower than 55% in 2009.

Financing

Erste Bank intends to raise equity capital around EUR 2.4 bn in the first quarter of 2006.

Advisors to Erste Bank were Rothschild, Cameron McKenna and Deloitte and Touche.

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¹ based on a Tier 1 ratio of 9%