
The rating action follows yesterday's announcement by the bank that it will create a holding company structure by 2008 as part of its group transformation project. A newly created holding company will be set up with the purpose of holding Erste Bank's current stakes in its central and eastern European operations as well as in a newly created Austrian bank, which will regroup Erste Bank's current domestic retail and corporate banking activities. Management plans to de-merge the Austrian customer business from Erste Bank into this new domestic entity, and at the same time, transfer the remaining operations currently carried out by Erste Bank to the holding company. These operations include the liquidity management for the savings bank sector, corporate and risk management functions for the group, as well as investment banking/trading operations and other international businesses (excluding the central and eastern European subsidiaries). The holding company will be listed and carry a credit rating as it will be the international borrowing unit for Erste Bank group.

The newly created Austrian bank and the holding company will be members of and benefit from the Haftungsverbund, the system of cross-guarantee in place in the savings bank sector. Both entities will have banking licences and will be subject to the Austrian Banking Act and the supervision of the Austrian national bank and the domestic banking regulator.

"With the restructuring, Erste Bank aims to reduce complexity in its banking group. The new structure should result in greater transparency for the steering of its domestic and international businesses, in particular as far as performance management is concerned," says Michael Steinbarth, Director in Fitch's Financial Institutions Group. "The bank's overall strategy will be unchanged and also economically, there is no material change."

The proposed changes still require regulatory as well as shareholders' approval. Given the comprehensive legal process, completion is scheduled for end-2008.

Erste Bank is Austria's second-largest banking group by assets. A savings bank in its own right, it has a strong domestic retail franchise and close relationships with small and medium-sized enterprises. Its presence in central and eastern Europe encompasses countries such as the Czech Republic, Slovakia and Romania, where Erste Bank owns large retail banks with sound franchises.

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