

For immediate release**2 February 2000****Erste Bank becomes leading Central European bank.
Czech Government accepts Erste Bank's bid for Ceska Sporitelna.**

"The acquisition of Ceska Sporitelna, the second largest bank in the Czech Republic, is not only a major step forward for Erste Bank in the implementation of its Central European strategy, but makes us into the the most important retail bank in the region", said Andreas Treichl, CEO of Erste Bank der oesterreichischen Sparkassen AG ("Erste Bank") following the Czech Government's announcement that it decided to accept Erste Bank's offer to buy a 52% stake in Ceska Sporitelna a.s. (CS).

With total assets of around CZK 351 billion (EUR 9.8 billion)¹ as at 30.9.1999, CS is the second largest bank in Czech Republic. It is the clear leader in retail business with market shares of 35% in primary deposits, 50% in lending business, 30% in mortgage loans and 75% in ATM and credit cards. A further core business is in services for small and medium-sized enterprises in the Czech Republic. The CS group includes the investment fund company Sporitelni investicni spolecnost a.s., the building society CS – stavebni sporitelna a.s., the insurance company CS- Zivnostenska pojistovna, a.s. pension fund company "Sporitelni penzini fond, a.s." and the leasing company Corfina a.s. Selected group subsidiaries are market leaders in their respective sectors.

The acquisition of Ceska Sporitelna is in line with Erste Bank's Central European strategy. There is an excellent fit between CS and Erste Bank, and CS provides a means for Erste Bank to fulfil its strategic objective of becoming the leading retail bank in the region. Together with CS, Erste Bank will have a network of just under 1000 branches spread across Central Europe, including the following potential candidates for EU entry - the Czech Republic, Hungary and Croatia. For the enlarged Erste Bank Group including CS, the share of Eastern European business in total group assets and profits is expected to rise to between 20% and 30% over the next three to five years.

Purchase price

The purchase price for the 52.07 % stake (56.22% of the voting rights) is CZK 19 billion (EUR 529 million). This corresponds to 1.55 times the estimated net asset value of CS according IAS accounting standards as at 31.12.1999 (CZK 23.6 billion or EUR 658 million). This represents a premium of 29% over the closing price on 1 February 2000.

The purchase price will be paid in two instalments:

- CZK 10 billion (EUR 278 million) to be paid at the closing of the transaction
- CZK 9 billion (EUR 251 million) to be paid on 31.12.2001
 - The vendor reserves the right to call up the second payment at an earlier date, but not before 29.12.2000, and this will lead to contractually agreed reduction of the purchase price.
- If the stated book value as of 31.12.1999 proves to be less than CZK 23.6 billion (EUR 658 million), this will lead to a further contractually agreed reduction in the purchase price.

¹ EUR 1 = CZK 35.85

Erste Bank is committed to conducting capital increases at CS by 30.6.2002 with a combined value in the amount of CZK 4 billion (EUR 111 million). These capital increases may be provided by Erste Bank, a subsidiary, a strategic partner, an Austrian savings bank investing in Ceska Sporitelna or subsidiaries of CS. The primary consideration behind the capital increase is the planned merger of Erste Bank Sparkassen (Prague) into CS. However, the new capital could also be used for expansion in important areas of business, including insurance, asset management, leasing and venture capital financing.

Financing

The financing of the deal is currently being evaluated by Erste Bank and a range of approaches to structuring the financing are being discussed. Through the EUR 100 million issue of Sub Tier 1 capital in January 1999 and authorised capital with a nominal value of EUR 43.6 million the bank has substantial latitude with Tier 1 funds. However, the Erste Bank Group will in any case ensure that its Tier 1 ratio remains at a level of at least 6%.

In addition, the involvement of a financial investor is being considered. Capital Z, one of the world's largest and most experienced private equity groups in financial services, is very interested in participating with Erste Bank in an investment in Ceska Sporitelna. The stake of Capital Z in the share capital of CS could be up to a maximum of 10% of CS' share capital. Capital Z manages funds on behalf of leading financial institutions, including Zurich Financial Services, Chase Manhattan and Merrill Lynch. Assets under management are currently around USD 3.4 billion (EUR 3.5 billion).

Protection against credit risks

The quality of the loan portfolio of CS has been substantially improved through a November 1999 "Bail-Out-Programme" of the Czech Government in the amount of about CZK 50 bn (EUR 1.4 bn).

A significant part of the agreement with the Czech National Property Fund (NPF) deals with securing Erste Bank against CS's remaining credit risks in the form of a guarantee by the Czech Government ("Ring Fencing") which especially applies to the following credit risks:

- Commercial loans in CNB Classes ² 3, 4 and 5 (non-performing loans) as of 31.12.1999 will be covered by a governmental guarantee immediately after signing.
- Commercial loans in CNB Classes 1 and 2 can be reviewed and reclassified into the appropriate CNB Classes 3 to 5 after closing and until 30.6.2001
- Off-balance sheet risks will be immediately guaranteed after signing.
- Selected bond risks, interbank and derivatives business and commercial leasing will be covered by governmental guarantees immediately after signing.

The governmental guarantee for the risk assets of CS lasts for five years. Each year, a certain amount can be transferred to Konsolidacni banka; the remainder can be transferred in the final year (2005).

During the Ring-Fencing period, CS is responsible for the management of the risk assets and receives the following fees in return from the Czech Government:

² Standard risk classifications of the Czech National Bank

- A margin of 90 basis points over the relevant interest rate (PRIBOR, EURIBOR, etc.) for all assets covered by Ring-Fencing.
- A success fee (12%) on all payments (including principal and interest) for Ring-Fenced assets.

“These agreements ensure that Erste Bank will not inherit problem risks stemming from credit decisions taken in the past, and will also give us sufficient time to reappraise the credit portfolio and offload non-performing loans”, said Treichl, highlighting a key element of the four month long negotiations.

Additional support programmes for the Czech economy

As part of an additional support programme for the Czech economy, CS in conjunction with Erste Bank will offer financing worth CZK 20 billion (EUR 557 million) at subsidised interest rates to Czech companies and private households. These programmes are to be targeted at boosting growth in areas which are of importance to the wider economy, and are also aimed at diminishing the current tight credit conditions in the Czech Republic. In addition this will provide CS with access to new customers.

The financing to be offered is as follows:

- A housing construction and renovation programme worth CZK 10 billion (EUR 278 million), tailored specifically for private households. These loans will have a term of up to 20 years.
- A programme tailored for SMEs and the agricultural sector worth CZK 10 billion (EUR 278 million). These loans will have a term of up to 10 years.
- A venture capital fund with a volume of CZK 1 billion (EUR 28 million) will be established to provide capital for Czech SMEs and start-ups.

Continuing the modernisation of the Czech banking industry

The sale of CS to Erste Bank underscores the Czech Government’s commitment to the ongoing modernisation of the banking industry in line with western practices and standards. Together with the management of CS, Erste Bank will inject expertise, products and, in particular, customer focus into the CS strategy. The goal is to change the perception in the region of banking transactions as cumbersome bureaucratic procedures towards seeing banks as service oriented financial services powerhouses with professional staff, integrated products and financial planning.

The restructuring costs associated with achieving this clear customer focus are put at around CZK 8 billion (EUR 223 million) over the next three years. This includes investments in software and in the branch restructuring programme. A significant proportion of the expenditure is to be on training programmes for employees, in order to deliver a customer orientation into line with western standards as soon as possible.

The envisaged investments in software are to be primarily aimed at enabling marketing information, the cross-selling of financial products among CS group subsidiaries and process reengineering. Better use is to be made of CS’s widely spread branch network, particularly

with regard to the sale of insurance products. In view of the modern equipment in place at CS, no investments are expected to be required in IT hardware.

The branch restructuring programme that has been running for several years is being continued. This envisages a reduction in the number of branches and headcount. The details of these plans are to be reviewed, however, with an eye to accelerating and strengthening customer orientation and segmentation in line with Erste Bank's current brand standards.

Earnings targets and timetable

Erste Bank's earnings targets for 2000 (an ROE of over 12% and a cost/income ratio of 65-67 %) will be delayed by a maximum of one to two years as a result of the Ceska Sporitelna acquisition. The preliminary business plan for the enlarged Erste Bank Group, drawn up in the course of acquisition negotiations, supports this forecast by predicting an average increase in Group profits of around 15% per annum. The restructuring and support program costs are included in the Business Plan.

As soon as the acquisition contract is signed, Erste Bank has the right to appoint a member of the Management Board of CS and two members of its Supervisory Board. By hiring Jack Stack, a former Executive Vice President at Chase Manhattan, Erste Bank has secured a leading international retail banker, and Erste Bank will put him forward to the CS Supervisory Board for an appointment to the Management Board of CS.

After the closing of the deal, when the CS shares will be transferred to Erste Bank, and which is scheduled to follow the submission of audited results in Q2 2000, Erste Bank will hold 56% of the voting rights and therefore a controlling majority stake in CS. This means that Erste Bank will assume management responsibility for CS.

For year 2000 accounts, Ceska Sporitelna will be fully consolidated into the Erste Bank Group's accounts with effect from the date that the shareholding in CS is transferred to Erste Bank. The accounts are being drawn up in line with IAS regulations.

The other major shareholders are the EBRD (which holds a 6% stake) and the insurer Ceska Pojistovna (8%). In addition, 7% of the total share capital comprises preferred stock without voting rights held by Czech municipalities. Ceska Sporitelna is listed on the stock exchange – the free float accounts for about 28%.

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