



## INVESTOR INFORMATION

For immediate release

27 September 2001

### **Austrian Savings Banks create Cross-Guarantee System Customer deposits guaranteed in full**

The Austrian savings banks have integrated even more closely through a cross-guarantee system, which forms a cornerstone of the co-operation launched in 1997. The new system, effective from 1 January 2002, provides a complete guarantee of customer deposits.

"The cross-guarantee system constitutes a milestone in Austrian banking. It means that nearly all Austrian savings banks mutually guarantee customer deposits. We see it as a clear sign of a unified, service-oriented savings bank group, since this offers customers not only a maximum of service but also a maximum of security for their deposits", said Josef Kassler, President of the Savings Bank Association ('Sparkassenverband'), on the occasion of signing the cross-guarantee agreement on 26 September 2001 at the Vienna Hofburg palace. In total the primary funds of the 64 members of the savings banks group amounted to EUR 52.6 billion at 30 June 2001.

Erste Bank's CEO, Andreas Treichl, said:

"The cross-guarantee system is the crowning achievement of our sectoral co-operation, following on from a unification of the appearance in the marketplace, joint product development and IT integration. We, the Austrian savings banks, have together attained something unique in Austria and neighbouring countries: regionally anchored, independent banks forming a customer-oriented and powerful financial group."

The cross-guarantee system, which is an integrated part of a comprehensive joint strategy and co-operation agreement, is based on three pillars:

- Unified approach to risk management, which ensures standardisation of credit risk classification and an agreed approach to liquidity management as well as common standards for controlling
- A joint early-warning system, intended to prevent financial problems at member banks and involving a system for back-up and support
- Securing customer deposits

#### **Structure**

The cross-guarantee system is an instrument, that would be triggered after the statutory deposit guarantees are fully utilised. The system is arranged through a separate company, in which Erste Bank holds a 51% stake, with the participating savings banks holding the remaining shares, weighted according to the deposit volume guaranteed. The management of the company consists of two representatives from the savings banks and two from Erste Bank. Potential guarantee measures are decided by a committee. In the event that a guarantee is issued, the necessary funds are made available at short notice, utilising a draw-down authorisation that can be issued rapidly by the company.

As part of the guarantee agreement the company can intervene at the member banks, if certain key figures, such as the Tier 1 ratio, solvency ratio, level of customer deposits or RoE are not met.

## **Advantages**

“Through the cross-guarantee system our customers benefit not only from an absolute deposit guarantee, but also from a strengthening of the domestic savings banks and reinforcement of their independence”, said Josef Kassler, commenting on the advantages of the new system.

The system will also have a positive impact on the refinancing structure of Erste Bank and, as a result, the savings banks.

Under IAS accounting rules, as applied at the Erste Bank Group, the cross-guarantee system has the following impact. It results in a consolidation, with combined pro forma 2000 total assets amounting to over EUR 100 billion, compared to EUR 71 billion for the Erste Bank Group, and an operating result of around EUR 900 million compared to EUR 474 million.

The enlarged Erste Bank Group's pro forma net income for the full year ending 31.12.2000 would only have changed slightly as a result of increased minority interests. There is also an only marginal impact on the pro forma cost / income ratio.

Participants in the cross-guarantee system will see a strengthening of liable equity capital, but the tier 1 ratio according to Austrian regulations remains unaffected.

***Background information on Erste Bank is attached.***

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## ***Background information on Erste Bank***

### ***Erste Bank - Highlights***

- A top ten European financial service provider by number of customers
- The leading player in Central European financial services by number of customers and share of deposits
- Erste Bank and its Austrian savings bank partners together serve over 8 million customers in Central Europe and have an 11% share of customer deposits in the region, according to recent analyst estimates

### ***Savings bank strategy***

The pioneering partnership approach adopted in Austria has enabled Erste Bank to leverage its core competencies across the large distribution network offered by the Austrian savings banks, offering new sources of growth potential in a mature market.

### ***Central Europe***

Within only three years, Erste Bank has successfully implemented plans announced in 1997 of acquiring or establishing significant operations in the neighbouring markets of Central Europe. The largest acquisitions in the region were in the Czech Republic and Slovakia:

- In January 2000 Erste Bank acquired a majority stake in Česká spořitelna, the leading Czech retail bank with over 3.5 million customers.
- At the beginning of 2001 Erste Bank signed an agreement to acquire a majority stake in Slovenská sporiteľňa, the largest bank in the Slovak Republic with 1.8 million customers.

Through these and other recent acquisitions, Erste Bank has significantly enhanced its attractiveness as a distribution partner for the insurance industry and international mutual fund managers.

### ***Erste Bank's financial targets for Year End 2003***

With the RoE on an upward trend and the cost / income ratio on a downward trend, Erste Bank is making good progress towards its conservative 2003 targets, which are as follows:

- RoE at least 14%
- Cost / Income Ratio a maximum of 66%

### ***Recent share price performance***

In Q1 2001 the Erste Bank share price grew by 20%, making it one of the best performing European banking stocks.

### ***Customer and product focus***

The Erste Bank Group's customer focus is on the retail market as well as small to medium-sized enterprises. The product focus is moving increasingly towards higher margin commission-based business where Erste Bank has achieved particular success, including asset management, insurance and leasing.

### ***Strategy***

Erste Bank has four basic strategic objectives:

- (i) to exploit its core business potential in Austria and focus on its key competencies,
- (ii) to build on its role as the lead bank of the Austrian savings banks sector and to seek increasingly closer co-operation and co-ordination within the sector, with the sharing of resources and responsibilities, creating synergies for the parties in terms of cost reduction and revenue growth,
- (iii) to grow its business in an extended home market in Central Europe with a potential customer base of some 40 million people and maintain its position as the leading retail financial institution in that market, and
- (iv) to offer the premier on-line access to innovative products across its extended home market.