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## **Erste Bank adopts new, forward-looking salary system**

The Employer/Employee Negotiation Committee of Erste Bank der oesterreichischen Sparkassen AG has agreed on a new company directive, based on the savings banks' collective contract salary structure, which has been in place since 1 January 2005.

"With this regulation, we are certain that we have the most forward-looking salary system in the Austrian financial sector, one which enables employees to share directly in company profit," commented CEO Andreas Treichl, pleased by the outcome.

"As with the collective contract salary structure, we now have a system which has a clear future, and one that has kept tried and tested aspects of the old scheme. The agreement offers both security and opportunity" said the Head of the Staff Council Günter Benischek. Both added that the new salary system is attractive and flexible, offering performance incentives while meeting the needs of business and employment in the modern world.

"With this new system, we have developed a scheme which is based on three pillars. Alongside basic salary payments, individual performance will also be taken into consideration and thirdly, all Erste Bank Group employees will be able to share in company profit, something that I believe is genuinely revolutionary in Austria," summarised Treichl.

The key components of the system are outlined below:

### **Basic salary:**

- Starting salaries will be increased significantly, but the lifetime earnings curve will be less steep than under the current system. The number of automatic annual pay increments (currently 33) will be reduced to nine salary grades.

### **Individual performance-related component:**

- In future, factors such as employees' efficiency, quality of work, social skills, innovative thinking and specific skills (e.g. foreign languages) of use to the Bank will have a far greater bearing on pay increases.
- All Erste Bank employees will be graded under the new salary system. However, as the Bank recognises that employees have certain expectations, a special dispensation has been agreed. Under this ruling, for a maximum of ten years depending on age employees will continue to receive the same increments as under the old system.
- So-called 'household' allowances will no longer be paid to employees joining on or after 1 January 2005. Instead, Erste Bank will contribute to a fund, which will finance measures intended to help prevent staff health problems.

- The staggered system of holiday entitlement at Erste Bank will end on 31 December 2005 in accordance with the new collective contract agreement, which provides for 31 days' holiday (previously 35).

#### **Profit share scheme:**

- This third element of the salary system is completely new. This element marks another significant step in building up the variable side of the salary package, and takes the form of fixed payments in line with market conditions.
- This component of the salary system is activated as soon as the target net profit after minority interests set by the Supervisory Board is exceeded. A fixed percentage is then paid out to the group's workforce of nearly 30,000. Under this regulation, a distribution of 2% is planned for the financial year 2005.
- Due to the excellent 2004 results, this system will be adopted one year ahead of schedule. "For the 2004 financial year, our employees will receive a flat payment from a pool of over EUR 7 million," explained Treichl.

The most significant aspect of the salary reform is the end to automatic increases and therefore a substantial reduction in increases in personnel costs caused by automatic pay rises. However, due to higher starting salaries and the transitional arrangements put in place, the full effect will only be felt in the medium term.

The "definitivum" clause, whereby employees with ten years' service or more cannot have their contracts terminated, was not part of the negotiations. This will now be the subject of separate discussion with the relevant associations and trade unions.

For further information please contact:  
Erste Bank, Investor Relations

A-1010 Vienna, Graben 21, Fax: 0043 (0)5 0100 ext. 13112

Gabriele Werzer, Phone: 0043 (0)5 0100 ext. 11286, e-mail: [gabriele.werzer@erstebank.at](mailto:gabriele.werzer@erstebank.at)

Monika Peraus, Phone: 0043 (0)5 0100 ext. 11282, e-mail: [monika.peraus@erstebank.at](mailto:monika.peraus@erstebank.at)

Isabella Sykora, Phone: 0043 (0)5 0100 ext. 13036, e-mail: [isabella.sykora@erstebank.at](mailto:isabella.sykora@erstebank.at)