

July 15, 2005

Erste Bank acquires 83.3% stake in Serbian Novosadska banka for EUR 73m

Erste Bank der oesterreichischen Sparkassen AG (Erste Bank) today signed the share purchase agreement (SPA) to acquire a 83.28% stake in the share capital of Novosadska banka a.d., Novi Sad (Novosadska banka) from the Republic of Serbia. Erste Bank had been selected preferred bidder by Serbia's Agency for Deposit Insurance, Rehabilitation, Bankruptcy and Liquidation of Banks (BRA) on May 18, 2005. The transaction is expected to close at the end of July 2005, subject to regulatory approval in Austria.

Erste Bank CEO Andreas Treichl commented:

"The acquisition of Novosadska banka takes Erste Bank into Serbia, a market with substantial future growth potential. We intend to establish a strong nationwide brand through extensive expansion of the branch network and by enhancing and increasing the scope of the banking products provided. This will include mortgage loans, loans for small and medium size enterprises, as well as issuing payment cards and intensifying e-banking services."

Key terms of the SPA

Under the SPA, Erste Bank agreed to pay EUR 73.17 million (CSD 5,786m) for the 83.28% stake, implying a price/book equity multiple of 3.3x - based on the audited IFRS book value of Novosadska banka's equity of EUR 26.42 million (CSD 2,089m) as of December 31, 2004). Following the completion of the transaction, Erste Bank will submit a tender offer for the remaining 16.72% shares of Novosadska banka currently owned by more than 2,000 minority shareholders. This offer will be identical with that submitted by Erste Bank within the scope of the privatization process.

Transformation Programme

The transformation programme will start in late September 2005 and is expected to run for 18 months. Erste Bank has already put in place a detailed business plan, the main components of which are set out below:

Strategic Objectives and Business Plan

The overall objective is to strengthen Novosadska banka's position as a leading retail bank in the Vojvodina region and in Serbia as a whole, aiming to increase market share (by assets) from 2% to 10% by 2010. To achieve this, Erste Bank plans to:

- Broaden the Novosadska banka network to cover all major regions and cities
 - Expand branch network by over 50% to 110 branches by 2010
 - Provide nationwide ATM coverage (increasing from 12 to 200 sites)
- Significantly expand the product range
- Establish commercial centres to facilitate a targeted approach to SMEs and corporate clients
- Develop banking services for municipalities
- Move from a product to customer-oriented organisational structure using an account manager approach
- Implement Erste Bank's client segmentation model and enhanced customer care, making use of alternative distribution channels
- Invest in training and introduce exchange programmes to support staff development
- Invest significantly in and increase workforce - from 873 to 1,250 by end 2008
- Further develop the IT infrastructure

Investment and Projected Return:

- Erste Bank will invest a further EUR 35m in Novosadska banka until 2009
- Break-even is projected by end 2006 (within 18 months of acquisition)
- After-tax ROE targeted to exceed 20% by 2008

Novosadska banka description

Novosadska banka had total assets of EUR 132.3 million as of December 31, 2004. With a market share of 10% the bank is the second largest player in Vojvodina, one of Serbia's most prospering regions, with close economic and cultural ties to Austria and other CE countries. Overall, Novosadska banka has a market share of 2% in Serbia in terms of total assets. It has 873 employees in 71 branches, serving around 260,000 customers. Its strong retail franchise will provide a solid foundation for realising an ambitious growth strategy in the country.

Exchange rate as of 31/12/2004: 1 EUR = CSD 79.0803

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