

Vienna, 3 May 2005

Erste Bank: Introduction of revised IFRS standards 32 and 39

- Restatement of 2004 balance sheet and income statement

From 1 January 2005, Erste Bank der oesterreichischen Sparkassen AG has adopted the revised IAS standards IAS 32 (Financial Instruments: Disclosure and Presentation) and IAS 39 (Financial Instruments: Recognition and Measurement).

Erste Bank has therefore restated its 2004 figures in line with the new standards. The changes mainly affect securities business and credit valuations, but do not give rise to any material impact on the financial statements.

I. The main effects of the new rules are as follows:

- The **Group's shareholders' equity as at 1 January 2004** is increased by EUR 34.7 million to EUR 2,825 m, while **minority interests in shareholders' equity as at 1 January 2004** is raised by EUR 73.8 million to EUR 2,953 m.
- **Group net profit for 2004 after tax and minority interests** shows a change of EUR – 23.7 million to stand at **EUR 520.8 million**.
- **Return on equity** based on the restated Group net profit and increased shareholders' equity is now **17.0%** rather than 18.0%.
- **Cost/income ratio** changes slightly from 63.4% to **63.5%**.
- **Earnings per share for 2004** now equals **EUR 2.18** compared to the previous EUR 2.28.

II. Notes on the main changes to the Group balance sheet at 31 December 2004

- **Loans and advances to credit institutions / customers**

Under the new standards, it is permissible to include securities bought on the secondary market under this heading, providing they are not traded on an active market. In Erste Bank's case this gives rise to a transfer of securities amounting to EUR 171.4 million from financial investments to loans and advances to credit institutions and a transfer of securities amounting to EUR 121.6 million to loans and advances to customers.

- **Risk provisions**

Owing to the introduction of portfolio impairment testing, additional risk provisions in the amount of EUR 55.3 million had to be booked. The resulting deferred tax asset of EUR 13.8 million is shown in the balance sheet under other assets.

- **Current investments / Financial investments**

In the past securities shown under this heading were mark to market, with any (realised and valuation) gains or losses being charged immediately to the income statement and stated under other operating result. This method is still used in the context of the new fair value portfolio category, one of the two sub-divisions of current investments. Securities falling under

the other sub-division, the available for sale portfolio, are likewise mark to market. However, except in the case of impairment charges, the valuation result is no longer charged to the income statement, but stated directly under total equity until sale or repayment. The impact of currency conversion, straight line write-ups and write-downs and interest / dividend income are still accounted for through the income statement. The rules for the held-to-maturity portfolio, which is shown under the balance sheet heading 'financial investments', have not changed significantly. Following this restructuring (reclassification and revaluation) of the portfolio, the figure for current investments rose by EUR 6,825.8 m, while financial investments decreased by EUR 6,941.2 m.

- **Debts evidenced by certificates / Subordinated capital**

Previously, if quoted on a stock exchange, redeemed securities from the bank's own issues were accounted for on the assets side of the balance sheet. With the new, more restrictive rules, any company redeeming its own debt instruments in order to offer them once again on the market at a later date must close out the original liability and, where applicable, charge any gain arising from the difference between issue and redemption prices directly to the income statement. As at 1 January 2004 the value of own-issue securities redeemed by Erste Bank was EUR 230.7 m, which is now stated in accordance with the revised rules (EUR 176.8 million as debts evidenced by certificates and EUR 53.9 million as subordinated capital).

- **Provisions**

Following the restructuring of the securities portfolios of the insurance companies that are fully consolidated in the Erste Bank Group, as at 1 January 2004, the restatement gave rise to a provisioning requirement of EUR 112.5 million (minimum third-party interest in the profit). In addition, this balance sheet item contains the EUR 59.7 million of deferred tax liabilities resulting mainly from securities portfolio valuation differences following the reclassification of fixed assets (held-to-maturity portfolio) as current assets (available-for-sale portfolio).

III. Notes on the main changes to the Group 2004 income statement

The changes in the income statement are the result in particular of the restructuring of the securities portfolio since, as already mentioned, the valuation gains or losses on the AFS (available for sale) portfolio are now stated directly under total equity. In 2004 this led to a EUR 27.9 million reduction in other operating result (taking into account the changes in the Česká spořitelna Group (see below) EUR 23.6 million) and a EUR 2.0 million increase in the insurance business result.

In addition, reporting methods were standardised throughout the Česká spořitelna Group and this produced slight shifts between net interest income, net commission income, personnel expenses and other operating result, although the net profit impact was zero.

The overall tax impact has been accounted for with a EUR -4.1 million charge to taxes on income.

After adjusting the figure for minority interests by EUR 6.4 m, the overall change to the Erste Bank Group's 2004 annual net profit was a reduction of EUR 23.7 m.

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You can also find this text on our website at <http://www.erstebank.com/Press>.

I. Balance sheet according to IFRS

in EUR m

Assets	31.12.04 restated	Changes	31.12.04 published
1. Cash and balances with central banks	2,723	0	2,723
2. Loans and advances to credit institutions	15,684	171	15,513
3. Loans and advances to customers	72,843	121	72,722
4. Risk provisions for loans and advances	(2,804)	(55)	(2,749)
5. Trading assets	4,628	0	4,628
6. Current investments	15,967	6,826	9,141
7. Financial investments	21,926	(6,941)	28,867
8. Intangible assets	1,823	0	1,823
9. Tangible assets	1,723	0	1,723
10. Other assets	5,299	8	5,291
Total assets	139,812	130	139,682

Liabilities and shareholders' equity	31.12.04 restated	Changes	31.12.04 published
1. Amounts owed to credit institutions	28,551	0	28,551
2. Amounts owed to customers	68,213	0	68,213
3. Debts evidenced by certificates	19,710	(177)	19,887
4. Provisions	7,500	172	7,328
5. Other liabilities	6,179	0	6,179
6. Subordinated capital	2,994	(54)	3,048
7. Total equity	6,665	189	6,476
thereof Shareholders' Equity	3,424	77	3,347
thereof Minority interests	3,241	112	3,129
Total liabilities and shareholders' equity	139,812	130	139,682

II. Income Statement according to IFRS

in EUR m	1.1.-31.12.04 restated	Changes	1.1.-31.12.04 published
I. Net interest income	2,698.9	3.4	2,695.5
Risk provisions for loans and advances	(406.2)	0	(406.2)
Net commission income	1,135.4	(5.7)	1,141.1
Net trading result	216.5	0	216.5
General administrative expenses	(2,594.9)	(2.0)	(2,592.9)
Result from insurance business	36.9	2.0	34.8
Other operating result	(51.3)	(23.6)	(27.7)
II. Pre-tax profit for the year	1,035.1	(26.0)	1,061.1
Taxes on income	(277.9)	(4.1)	(273.8)
III. Profit for the year	757.3	(30.0)	787.3
Minority interests	(236.4)	6.4	(242.8)
IV. Net profit after minority interests	520.9	(23.6)	544.5

III. Erste Bank Group 2004 - Divisional Reporting (Overview)

TOTAL								
in EUR m	Austria		Central Europe		International Business		Corporate Centre	
	2004 restated	2004	2004 restated	2004	2004 restated	2004	2004 restated	2004
Net interest income	1,607.9	1,607.9	954.2	950.9	150.8	150.8	(14.1)	(14.1)
Risk provisions for loan and adv.	(341.3)	(341.3)	(49.9)	(49.9)	(15.5)	(15.5)	0.5	0.6
Net commission income	722.1	722.1	398.6	404.3	22.5	22.5	(7.9)	(7.9)
Net trading result	117.6	117.6	101.4	101.4	1.7	1.7	(4.2)	(4.2)
General administrative expenses	(1,613.0)	(1,613.0)	(899.0)	(897.0)	(33.4)	(33.4)	(49.5)	(49.5)
Income from insurance business	28.5	26.4	8.4	8.4	0.0	0.0	0.0	0.0
Other operating result	(38.9)	(32.0)	(61.5)	(44.8)	(5.7)	(5.7)	54.8	54.8
Pre-tax profit for the year	482.9	487.8	452.2	473.2	120.4	120.4	(20.3)	(20.3)
Taxes on income	(120.2)	(113.4)	(105.0)	(107.8)	(26.7)	(26.7)	(25.8)	(25.8)
Minority interest	(153.1)	(158.7)	(42.6)	(43.3)	0.0	0.0	(40.7)	(40.7)
Net profit after minority interests	209.6	215.7	304.5	322.1	93.6	93.6	(86.9)	(86.9)
Average risk-weighted assets	46,484.0	46,484.0	13,318.7	13,318.7	6,262.0	6,262.0	405.7	405.7
Average attributed equity	1,759.1	1,731.0	874.8	860.8	411.3	404.7	26.6	26.2
Cost/Income Ratio	65.1%	65.2%	61.5%	61.2%	19.1%	19.1%	n.a.	n.a.
ROE based on net profit	11.9%	12.5%	34.8%	37.4%	22.8%	23.1%	n.a.	n.a.
Thereof funding costs	(70.6)	(70.6)	(64.8)	(64.8)	0.0	0.0	(27.7)	(27.7)

GROUP TOTAL		
in EUR m	Erste Bank Group	
	2004 restated	2004
Net interest income	2,698.9	2,695.5
Risk provisions for loan and adv.	(406.2)	(406.2)
Net commission income	1,135.4	1,141.1
Net trading result	216.5	216.5
General administrative expenses	(2,594.9)	(2,592.9)
Income from insurance business	36.9	34.8
Other operating result	(51.3)	(27.7)
Pre-tax profit for the year	1,035.1	1,061.1
Taxes on income	(277.9)	(273.8)
Minority interest	(236.4)	(242.8)
Net profit after minority interests	520.8	544.5
Average risk-weighted assets	66,470.4	66,470.4
Average attributed equity	3,071.9	3,022.8
Cost/Income Ratio	63.5%	63.4%
ROE based on net profit	17.0%	18.0%
Thereof funding costs	(163.1)	(163.1)

IV. Erste Bank Group 2004 - Divisional Reporting (Details)

AUSTRIA								
in EUR m	Savings Banks		Retail and Mortgage		Large Corporate Customers		Trading und Investment Banking	
	2004 restated	2004	2004 restated	2004	2004 restated	2004	2004 restated	2004
Net interest income	849.6	849.6	516.1	516.1	139.9	139.9	102.4	102.4
Risk provisions for loan and adv.	(184.5)	(184.5)	(118.9)	(118.9)	(37.9)	(37.9)	0.0	0.0
Net commission income	318.8	318.8	280.4	280.4	71.2	71.2	51.7	51.7
Net trading result	18.8	18.8	10.5	10.5	1.2	1.2	87.1	87.1
General administrative expenses	(801.7)	(801.7)	(634.8)	(634.8)	(83.0)	(83.0)	(93.5)	(93.5)
Income from insurance business	0.0	0.0	28.5	26.4	0.0	0.0	0.0	0.0
Other operating result	(18.8)	(11.8)	(5.5)	(5.5)	(7.7)	(7.7)	(7.0)	(7.0)
Pre-tax profit for the year	182.1	189.1	76.3	74.2	83.8	83.7	140.8	140.8
Taxes on income	(47.1)	(46.6)	(20.0)	(15.7)	(17.9)	(17.9)	(35.2)	(33.3)
Minority interest	(127.8)	(133.8)	(15.2)	(14.8)	(10.1)	(10.1)	0.0	0.0
Net profit after minority interests³	7.1	8.7	41.1	43.7	55.8	55.8	105.6	107.5
Average risk-weighted assets	22,986.2	22,986.2	12,844.7	12,844.7	6,860.9	6,860.9	3,792.1	3,792.1
Average attributed equity	245.7	242.3	827.3	813.8	441.9	434.7	244.2	240.3
Cost/Income Ratio	67.5%	67.5%	76.0%	76.2%	39.1%	39.1%	38.8%	38.7%
ROE based on net profit⁴	2.9%	3.6%	5.0%	5.4%	12.6%	12.8%	43.2%	44.8%
Thereof funding costs	(16.2)	(16.2)	(37.0)	(37.0)	(14.6)	(14.6)	(2.8)	(2.8)

CENTRAL EUROPE								
in EUR m	Česká spořitelna		Slovenská sporiteľňa		Erste Bank Hungary		Erste Bank Croatia	
	2004 restated	2004	2004 restated	2004	2004 restated	2004	2004 restated	2004
Net interest income	510.0	506.6	185.8	185.8	174.0	174.0	84.5	84.5
Risk provisions for loan and adv.	(15.8)	(15.8)	0.8	0.8	(30.0)	(30.0)	(4.9)	(4.9)
Net commission income	262.9	268.6	66.4	66.4	52.6	52.6	16.7	16.7
Net trading result	41.0	41.0	16.5	16.5	31.3	31.3	12.6	12.6
General administrative expenses	(500.5)	(498.5)	(158.5)	(158.5)	(175.7)	(175.7)	(64.3)	(64.3)
Income from insurance business	8.4	8.4	0.0	0.0	0.0	0.0	0.0	0.0
Other operating result	(10.8)	3.9	(28.4)	(25.4)	(21.0)	(21.0)	(1.3)	(2.3)
Pre-tax profit for the year	295.1	314.1	82.6	85.6	31.3	31.3	43.2	42.2
Taxes on income	(89.5)	(92.5)	(7.2)	(7.2)	0.3	0.3	(8.6)	(-8.5)
Minority interest	(11.9)	(12.3)	(18.2)	(18.8)	(0.1)	(0.1)	(12.4)	(12.1)
Net profit after minority interests	193.7	209.4	57.2	59.6	31.5	31.5	22.1	21.6
Average risk-weighted assets	7,491.5	7,491.5	1,890.2	1,890.2	2,031.2	2,031.2	1,905.9	1,905.9
Average attributed equity	492.1	484.2	124.2	122.2	133.4	131.3	125.2	123.2
Cost/Income Ratio	60.9%	60.5%	59.0%	59.0%	68.1%	68.1%	56.6%	56.6%
ROE based on net profit	39.4%	43.2%	46.1%	48.8%	23.6%	24.0%	17.7%	17.6%
Thereof funding costs	(26.4)	(26.4)	(11.1)	(11.1)	(21.5)	(21.5)	(5.8)	(5.8)