

98

Annual Report

Erste Bank – one of the leading retail banks  
in Central Europe

*Continuing  
to focus*  
on our 3  
core  
strategies

# Highlights 1998

## January

Creating a platform for progress early in the year: The establishment of a separate **Central and Eastern Europe** division underscores the importance that Erste Bank attaches to its strategic aim of becoming the **leading supraregional retail bank in Central Europe**.

## February – March

Another step forward in the Central European strategy: Erste Bank buys the remaining 60% of two CA-IB investment banking units in Warsaw, now renamed **Erste Securities** and **Erste Investment**. Erste Bank now has specialised investment banking subsidiaries in Warsaw, Prague, Budapest and Zagreb.

Laying the foundation for co-operation with the savings bank sector on information technology: **Founding of IT-Austria GmbH**, a joint computing centre for Erste Bank Group, Bank Austria Group and the savings banks. This co-operative venture generates opportunities for all participants to reap synergies in terms of costs and quality.

## May

**Eybl International AG goes public:** In the course of this IPO, the shareholding of Erste Bank falls from 97% to 25%. In keeping with the strategy of concentrating on core business, this step forms part of a continuing process of parting with activities that do not fit with the strategic focus.

Reinforced presence in **Central Europe:** After a capital increase at **Hungary's Mezőbank Rt.**, Erste Bank now owns 93.9%, up from 88%. The 59 branches make Erste Bank's branch network the fifth largest in Hungary.

## June – July

**Favourable assessment by Fitch IBCA:** For the first time the international rating agency publishes its ratings for Erste Bank. **A+ for long-term and F1 for short-term debt.**

The merger of EKA and Sparinvest, two asset management companies, to form **Erste-Sparinvest KAG** creates Austria's **second largest fund management company**. With a market share of more than 27%, it leads the market for **retail investment funds**.



## September

Erste Bank converts its representative office in **Hong Kong** into a **fully operational branch** and bundles its entire Asia/Pacific business in this location. The international activities are thus concentrated in **four profit centres: Vienna, London, New York and Hong Kong.**

At the end of September, Erste Bank's **new treasury centre** begins operations. All securities, foreign exchange and money market activities are now gathered in one place, served by state-of-the-art technology.

## October

Mezöbank is renamed **Erste Bank Hungary Rt.** and launches a strategic repositioning campaign in Hungary.

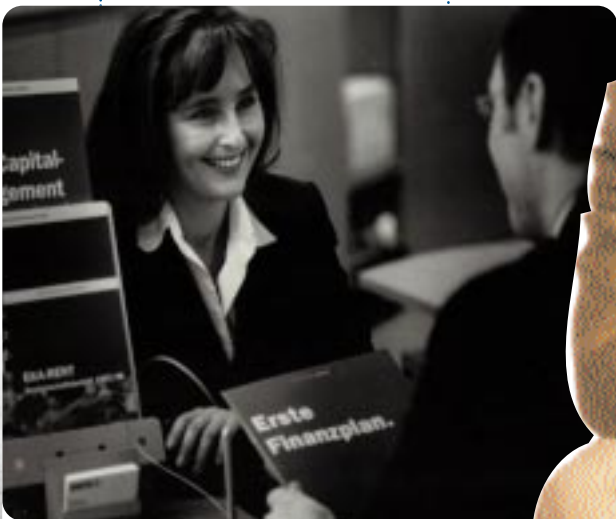
## November

**Streamlining of investment portfolio:** Sale of the 37.5% stake in Georg Fischer Automobilguß AG to the Swiss majority owner.

## December

A **capital increase** is approved by an extraordinary General Meeting of **Erste Bank Hungary Rt.** Erste Bank raises its stake from 93.9% to **95.8%.**

**Erste Bank is given a tighter organisational structure:** Thirty-three operational units are combined into **10 business units and 13 service units.** Two new board members are appointed to Erste Bank's board of five. Erste Bank breaks new ground by creating a 19-person Steering Committee, involving the board members and selected second tier management.



Erste Bank der oesterreichischen Sparkassen AG is Austria's second largest banking group and one of the leading retail banks in Central Europe.

Erste Bank is Austria's oldest savings bank and the central institution of the Austrian savings bank sector. It offers tailor-made solutions with a comprehensive range of banking services and professional advisory services to its clients. It is the bank of choice for Austria's middle classes and is continuously expanding its substantial branch network in Central Europe. In addition the group is represented in the major financial centres of the world.

Erste Bank is focused on its core customers in retail and commercial banking and intends, in co-operation with the savings bank partners, to develop the savings bank sector into the strongest and most profitable financial services sector in Austria. Overall Erste Bank is pursuing its goal to further enhance its position as one of the leading supra-regional retail banks in Central Europe.

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## Financial Highlights

### OVERVIEW OF ERSTE BANK GROUP

in million (except where stated)	ATS 1997	ATS 1998	EUR 1998	Change in %
Total Assets	687,583	715,416	51,991	4.0%
Loans and advances to credit institutions	177,382	190,601	13,851	7.5%
Loans and advances to customers	359,668	374,029	27,182	4.0%
Amounts owed to credit institutions	275,050	301,793	21,932	9.7%
Amounts owed to customers	266,044	269,378	19,576	1.3%
Debts evidenced by certificates including subordinated liabilities and supplementary capital	95,115	93,892	6,823	-1.3%
Qualifying consolidated capital pursuant to §24 Banking Act	39,341	43,697	3,176	11.1%
of which Core Capital (Tier 1)	21,625	22,169	1,611	2.5%
Solvency ratio in accordance with §22 Banking Act in %	11.1%	11.0%		
of which Core Capital ratio (Tier 1 ratio) in %	6.1%	6.1%		
Operating income	15,834	16,841	1,224	6.4%
Operating expenses	11,631	12,340	897	6.1%
Operating result	4,203	4,501	327	7.1%
Result of ordinary activities	517	2,608	189	404.6%
adjusted for extraordinary risk provisions in 1997	1,917	2,608	189	36.0%
Consolidated net income	229	2,242	163	879.0%
adjusted for extraordinary risk provisions in 1997	1,677	2,242	163	33.7%
Number of employees	9,357	9,082		-2.9%
of which in Austria	7,723	7,369		-4.6%
of which outside Austria	1,634	1,713		-4.8%
Number of branches	461	450		-2.4%
Interest margin (net interest margin and income from securities and participating interests as % of average Total Assets)	1.52%	1.41%		
Operating result as % of average Total Assets	0.25%	0.31%		
Operating result as % of Risk Weighted Assets (RWA)	0.48%	0.61%		
Cost/Income Ratio in %	73.5%	73.3%		
Level of risk provisions as % of total lending (including contingent commitments)	4.2%	3.9%		
Return on Equity (RoE) in %	1.3%	11.6%		
adjusted for extraordinary risk provisions in 1997	9.7%	11.6%		
Earnings per share 1998 acc. to ÖVFA <sup>1</sup>	12.00	53.00	3.85	341.7%
adjusted for extraordinary risk provisions in 1997	40.00	53.00	3.85	32.5%
Dividend per share <sup>2</sup>	16.00	16.00	1.16	0.0%
Share price at 30.12.1998		627.50	45.60	
High 1998		860.00	62.50	
Low 1998		508.00	36.92	
Price/earnings ratio at 30.12.1998 <sup>1</sup>		11.85		
Stock exchange turnover 1998 in billion		21.31	1.55	
Market capitalisation at 30.12.1998 in billion		27.86	2.02	
Moody's Investors Service				
long term		A1		
short term		P1		
Bank Financial Strength Rating		C+		
FITCH IBCA				
long term		F1		
short term		A+		
individual		C		
Standard & Poor's				
short term		A-2		

<sup>1</sup> Calculated applying ÖVFA (Austrian association of financial analysts) method based on results shown

<sup>2</sup> Recommendation to general meeting of shareholders



Dear Shareholder

Last year was both the first full financial year for Erste Bank der oesterreichischen Sparkassen AG, and a very intensive period of activity. In 1998 we focused single-mindedly on implementing our strategic goals:

- The strongly performing core businesses in retail and corporate banking, in particular for small and medium-sized companies, real estate finance and asset management, increasingly moved to centre-stage
- We took decisive steps to establish ourselves as a leading retail bank in Central Europe
- In the Austrian savings bank sector, we worked out a highly co-operative arrangement – already implemented in some areas – that is drawing partner institutions together to tap significant synergies through centralised product origination and decentralised distribution.

In spite of the adverse world economic environment, 1998 was a good year for Austria. Inevitably, the long-underestimated crises in Asia, Russia and Latin America also took their toll here in Austria, where economic growth noticeably slowed in the second half of the year. But the estimated 3.3% growth of GDP in 1998 amounts to the strongest expansion since 1991, and exceeds the EU average. For 1999, unfavourable international forecasts translate into a more restrained outlook here. We expect Austrian GDP to grow by about 2.2% in 1999.

In the first half of the year, the tribulations of South-East Asia's tiger economies and the recession in Japan cast a long shadow over developments in international securities markets. Fortunately, the leading stock exchanges in Europe and the USA by and large escaped the resulting negative trends until the summer, prospering on the flight of capital from Asia to chart strong gains by mid-year. The bright sentiment on Western bourses faltered abruptly in the second half of July when the staggering scale of Russia's economic problems became apparent and investors abandoned equities in favour of fixed-income products. Whereas most stock markets had

recouped their summer losses by year-end, the **Vienna Stock Exchange was among the stragglers in 1998** and ended the year down 14.5%. In this difficult setting, **Erste Bank's share** performed much better than the ATX, closing the year on a net decline of 0.3% as the strongest financial stock in the Vienna stock index.

The international crises have prompted **investors and analysts to pay particular attention to banks' risk management**. We responded by striving for especially clear, open and honest communication with investors and analysts. Thus we were quick to publish our total exposure and detailed breakdowns of loan books for specific critical regions.

With **growth in total assets of 4%**, a rise of **7%** in the **operating result** and **Group net income that is almost 34% higher** than last year's adjusted figure of ATS 1,677 million, Erste Bank Group not only delivered on its forecasts, but made a respectable showing given the economic environment. This confirms that we are off to a strong start and heading towards meeting targets which are ambitious, but well within our reach.

The results of 1998 demonstrate that we are perfectly capable of realising the primary objective of a **return on equity (RoE)** of at least **12% for the year 2000**. Our priority in 1999, however, will be to bring down our cost/income ratio. Last year took us only a small step closer to our year-2000 target of a **cost/income ratio of 65-67%**. To hasten progress, we have streamlined our management structure and in January 1999 we initiated a root-and-branch cost reduction programme. By 2000 we want to cut Group operating expenses by ATS 1 billion.

#### ***Putting core businesses first***

We have decisively reorganised our **retail business** around customer needs, and are committed to comprehensive customer care with emphasis on asset management, real estate finance and insurance. In **asset management** the newly-formed Erste-Sparinvest KAG, which commands the leading market share of more than 27% among Austrian retail investment funds, has a

central role to play in propelling Erste Bank and the savings banks to the top of the Austrian fund management industry. The strategic focus of our **corporate banking** activities is on the market segment occupied by small and mid-sized companies in Austria and the extended home market. True to our philosophy, our work with corporate customers also revolves around discovering and fulfilling their specific needs. In our "Start and Go" package introduced in March 1999, we have created a new product that offers innovative entrepreneurs a leg up in launching their own business. Our aim in this is to win high-quality new clients and build lasting business relationships. In 1998, as part of our earnings enhancement programme, we conducted a very thorough **review of our corporate portfolio**. All accounts were analysed by risk category and profitability in order to lower risk-related costs in this segment and to strengthen long-term relationships that are mutually beneficial.

We also **streamlined our holdings of industrial investments**. Because we consider it our mission to be the best provider of financial services in our region rather than a diversified conglomerate, we have sold off most of our remaining industrial holdings. In particular, our 97% stake in Eybl International AG was reduced to 25% in 1998 and to 2% in 1999. In November 1998 we sold off our 37.5% stake in Georg Fischer Automobilguß AG to its Swiss majority owner.

#### ***The savings bank strategy of Erste Bank***

We see a large and challenging task in structuring our co-operation with the savings bank sector. Our partnership with Austria's savings banks is intended not only to safeguard their independence for the long term, but to make them once again the most profitable, strongest branch of this country's financial sector.

Erste Bank's purchase of a minority stake in the Kärntner Sparkasse (Carinthian Savings Bank) and the planned equity investment in Allgemeine Sparkasse Oberösterreich (Upper Austrian Savings Bank) should help secure the long-range stability of this highly important financial services segment.

Our shareholders and customers benefit from this strategy in two important ways. On the one hand, the quality of savings bank products across Austria is elevated to a uniformly high standard. On the other hand, these services are produced in a cost-efficient manner while making the fullest possible use of available synergies.

#### *Entrenching Erste Bank in the extended home market*

To continue to grow as a successful retail bank, Erste Bank is expanding from its domestic market of 8 million Austrians to become active in a **market with a population of about 30 million**. In doing so we are anticipating the accession of Hungary and the Czech Republic to the EU. Heralded by the re-naming of Mezőbank Rt. as Erste Bank Hungary Rt. in October 1998, the unit's now advanced re-positioning along the lines of its Austrian parent, Erste Bank, represents gratifying progress on this extended home front.

A decision that will be taken in 1999 is whether Erste Bank will buy a branch network in the Czech Republic as well, or build one from the present base of six outlets of its own and four branches of the Mühlyviertel-West savings bank. Similarly, in the Slovak Republic and Croatia, we plan to push back the frontier of our home market continually. In both countries the Bank, together with savings banks, holds interests in financial institutions with very good local market positions.

#### *Working with our strategic partners*

In concert with our strategic partners, we used the past year to carefully study the potential for close collaboration. With our banking partners Commerzbank, Bacob Bank and Swedbank we defined areas of co-operation that include, among others, international payments, co-operation in Central Europe, collaboration in securities business, and the pooling of expertise in information technology. The goal of our collaboration with BARC and Generali Holding Vienna, our two insurance partners, is to offer comprehensive and competitive one-stop financing for the clients of Erste Bank and the savings bank sector.

#### *Management*

1998 was also a year of ground-breaking management changes. We slimmed down our organisational structure by creating business units, which work directly for our customers, and service units, which support the business units and thus serve clients indirectly. The **newly established Steering Committee**, which is composed of the managers of the 10 business units, the heads of four selected service units and the Managing Board, will take all critical strategic and operational decisions for the Bank. This extension of Erste Bank's management team marks another first in Austrian banking. We are convinced that this innovation will enable our Group to meet the challenges of the years ahead much more swiftly and effectively.

#### *Employee stock ownership*

A matter of special importance to me is the motivation of every one of our employees. In future, **performance and success will pay off much more handsomely** at Erste Bank. At the time of the IPO, Erste Bank became the first Austrian company to introduce a management stock option plan (MSOP). A new employee stock option programme (ESOP) is intended to be set up in the first half of 1999 for all bank employees. This new programme will tie stock option allotments to two measures of success: the share's performance relative to the ATX and progress towards the cost/income ratio target for the year 2001.

#### *Summary*

Erste Bank did well in some areas of its operations in 1998, but much remains to be done in other areas. What ultimately counts is that we are on the right track. Erste Bank, as Austria's second largest banking group, has the will and resources to assert itself as the leading supra-regional retail bank in its extended home market of Central Europe. Its needs-centred customer care and rich product range will stand it in good stead.



As a service business, we rely on our well trained employees, who will continue to ensure our close personal rapport with customers. To amplify our effectiveness and profitability, we will assign top priority to supporting our staff with new technologies and media in selling to and catering for customers. We want to be able to provide the right products at the right time, and deliver them to the right customer through the right delivery channel.

The years ahead will deal players in Europe's financial services sector an entirely new hand. We are eager to accept the challenge, and invite you as a shareholder or customer of Erste Bank to profit from these developments.

A handwritten signature in black ink, appearing to read 'Andreas Treichl', with a stylized flourish at the end.

Andreas Treichl

## The Managing Board of Erste Bank

On 4 December 1998 the Supervisory Board appointed two new directors to the **Board of Management**. Andreas Treichl (CEO), Elisabeth Bleyleben-Koren and Reinhard Ortner were joined on 1 January 1999 by Franz Hochstrasser and Peter Ostermann.

The changes within the Board were accompanied by a redistribution of directors' responsibilities and a restructuring of the Bank's senior management. A principle of collective responsibility for company decisions and progress that is new to Austria was put in place through the creation of a Steering Committee.



**Andreas Treichl**  
*Chairman of the Managing Board and Chief Executive*

- Born** 1952 in Vienna
- Since 7/1997** CEO of Die Erste österreichische Spar-Casse Bank AG, now Erste Bank; in charge of the business unit Savings Banks and the service units Communications & Marketing, Controlling & Risk Management, Legal Services, Auditing and the Secretariat to the Board
- 1994-1997** Die Erste österreichische Spar-Casse Bank AG: Member of the Managing Board
- 1993-1994** Crédit Lyonnais Austria, Vienna: CEO
- 1986-1993** Chase Manhattan Bank Austria, Vienna: CEO
- 1983-1986** Die Erste österreichische Spar-Casse: Responsible for Key Accounts
- 1977-1983** Chase Manhattan Bank, New York: Corporate Finance
- 1971-1975** Studies in economic sciences at Vienna University

**Elisabeth Bleyleben-Koren**  
*Member of the Managing Board*

- Born** 1948 in Vienna
- Since 7/1997** Member of the Managing Board of Die Erste österreichische Spar-Casse Bank AG, now Erste Bank; in charge of the business units Retail Sales (Vienna and provinces), Corporate Banking, Key Accounts & Project Finance and Housing Finance, as well as the service units Human Resources and Domestic Risk Management
- 1977-1997** Die Erste österreichische Spar-Casse: Key Accounts
- 1973-1977** Creditanstalt, Vienna: Staff unit for the Deposits and Retail Banking division
- 1966-1972** Law studies at Vienna University



**Reinhard Ortner**  
Member of the Managing Board

**Born** 1949 in Vienna

**Since 1984** Member of the Managing Board of Die Erste österreichische Spar-Casse, now Erste Bank; in charge of the business units Central & Eastern Europe and International Business, as well as the service units Accounting, Equity Investment and International Credit Risk Management

**1971-1984** Die Erste österreichische Spar-Casse: Accounting and Controlling

**1967-1971** Studies in economic sciences at Vienna University



**Franz Hochstrasser**  
Member of the Managing Board

**Born** 1963 in Graz, Austria

**Since 1/1999** Member of the Managing Board of Erste Bank; responsible for the business units Treasury, Investment Banking & Asset Management and the service unit Securities Settlement

**1997-1998** Erste Bank: Divisional Manager Controlling and Risk Management

**1991-1997** GiroCredit, Vienna: Risk Management, Equities & Equity Derivatives and Investment Banking divisions

**1982-1990** Studies in business administration at Graz University



**Peter Ostermann**  
Member of the Managing Board

**Born** 1956 in Vienna

**Since 1/1999** Member of the Managing Board of Erste Bank; in charge of the service units Organisation & IT and Payments & Settlement

**1993-1998** Andersen Consulting, Vienna: Associate Partner and head of the Vienna office

**1989-1992** Visio Informationsverarbeitung GmbH, Vienna: General Manager

**1984-1989** IBM Austria, Vienna: Key accounts and insurance customers

**1977-1984** Elin Union, Vienna: Design Engineer, Business Planning Staff

**1977-1984** Studies in business administration at Vienna University

### Moving into the future – Realising our strategic goals

In preparation for going public in 1997, Erste Bank developed a three-pronged strategy with the aim of becoming the leading supra-regional retail bank in Central Europe. We made considerable progress towards this goal last year.

#### 1. Exploiting the core business potentials

The strategy of focusing on our core business applies first and foremost to **five divisions**, in which Erste Bank already boasts substantial strength: Retail and Corporate Banking, Asset Management, Housing Finance and Securities Trading. In these divisions we implemented an earnings enhancement programme with the goal of making full use of opportunities to increase profits and trim costs.

Our target was an improvement of **ATS 3.7 billion** by the year 2000. After deductions for various factors such as inflation effects, expenses relating to the introduction of the Euro and additional tax, we expect a net increase of ATS 1.4 billion. These are the prerequisites for attaining an RoE of at least **12% in 2000** and a **cost/income ratio of 65-67%**.

**What we have accomplished:** The earnings enhancement programme was successfully carried out in many of our businesses, notably corporate and retail banking. We began with a painstaking review of our corporate portfolio, with



profitability and creditworthiness as the top criteria. In the second half of the year we started to put into practice our new retail strategy, which essentially places customers and their needs and desires at the centre of everything we do. The branch network was adjusted to specific local requirements by differentiating it into three types of branches.

**What we are planning:** In parallel with the renewal of the management structure and to complement the earnings enhancement drive, we launched a trenchant cost reduction programme in early 1999. Our target is to save ATS 1 billion over two years. This corresponds to a reduction of some 30% in the cost base of ATS 3.3 billion attributable to the units covered by this programme.

#### 2. Building on our role as the central institution of the savings bank sector

The emphasis on Erste Bank's role as the central institution of the savings bank sector is designed to capitalise to the full on the potential of the nation-wide presence of the savings banks network with around 860 branches. The shared goal is to raise market share and improve the earning power of the entire sector. It is our conviction that the savings banks' local roots not only make for quicker decisions, but are invaluable in catering to the specific local economic terrain.

**What we have accomplished:** Four areas of co-operation were defined in which **29 concrete co-operative projects** are being carried out jointly with the savings banks over a period of two to three years. They are based on a **letter of intent** negotiated last year between the seven largest regional savings banks and Erste Bank.



As early as the second half of 1998, the implementation of several such projects was in full swing. For example, some of the large savings banks have already **outsourced their securities settlement** to Erste Bank. We also have contracts with a number of savings banks to perform **asset-liability management studies** for them.

**What we are planning:** A **common information technology architecture** is to be planned and created for the entire sector in order to achieve a uniform customer data base and merge all the sector's IT platforms. The continuous execution of co-operative projects, further unification of advertising and the co-ordination of sector-wide marketing planning also serve as an outward projection of the sector's unity.

### 3. Establishing a new core market in Central Europe

Developing the business activities in Central and Eastern Europe was at the heart of the third strategy formulated at the time of Erste Bank's flotation. We were in a good starting position in Hungary through our ownership since 1997 of an **83.7% interest in Hungary's Mezőbank**.

**What we have accomplished:** Through two capital increases last year, Erste Bank stocked up its stake in Mezőbank to close to 96%. The unit's **new name Erste Bank Hungary Rt.** now also distinguishes it externally as part of the Erste Bank Group. At the end of 1998 Erste Bank Hungary had a staff of 1,106 and total assets of roughly ATS 7.5 billion. Its 59 branches represent Hungary's **fifth largest retail banking network**. The restructuring and reorientation of Erste Bank Hungary, which started in 1998, will be completed this year.

By establishing the **OTTHON building society**, in which S-Bausparkasse holds a 70% share and in which Erste Bank Hungary and Hungary's Konzumbank each own 15%, another building block was put in place for the retail strategy in Hungary.

**What we are planning:** One of the most important tasks for Erste Bank Hungary this year will be to **build its retail business**. By the end of the year the Bank intends to double the number of its retail customers to 200,000. In corporate

banking it also plans to expand its client portfolio. A broadly based marketing campaign has been unfolding since the first quarter of this year to make this happen.

In 1999 Erste Bank wants to **scale up its presence in the Czech Republic** and appreciably expand activities in Croatia, where it shares a majority stake in Bjelovarska Banka with Steiermärkische Sparkasse. Similar plans exist for growth in Slovenia and the Slovak Republic.



**Erste Bank's main customer groups**

Retail customers

Retail banking, one of the traditional mainstays of Erste Bank's income, is today handled almost entirely by its branches. The Retail Banking division caters to retail customers, self-employed individuals and professionals as well as small companies. In 1998, Erste Bank AG's approximately 2,230 retail employees at 270 branches in Vienna and the federal states served about 670,000 customers. Erste Bank Group as at 31 December 1998 operated an Austria-wide network of 357 branches. This includes the 75 branches of Salzburger Sparkasse Bank AG, in which Erste Bank holds a 68.5% stake, and the 12 branches of the Mühlviertel-West savings bank, in which Erste Bank is the largest single shareholder with a 40% stake.

Through its retail network, Erste Bank offers a complete product range from payments, savings and investment products as well as lending all the way to building society products and insurance. Its specialist subsidiaries, in particular S-Versicherung, S-Bausparkasse and Erste Sparinvest, play a decisive role not only in rounding off the portfolio of products, but also in helping integrate the Austrian savings bank sector more closely into Erste Bank's overall strategy.

Retail reorientation project

A study conducted at the start of the retail reorientation project in the spring of 1998 revealed that, in the past, Erste Bank achieved good results in its retail business on the strength of a highly product-oriented approach to sales, but that it was **not fully exploiting the profit potential** in this segment.

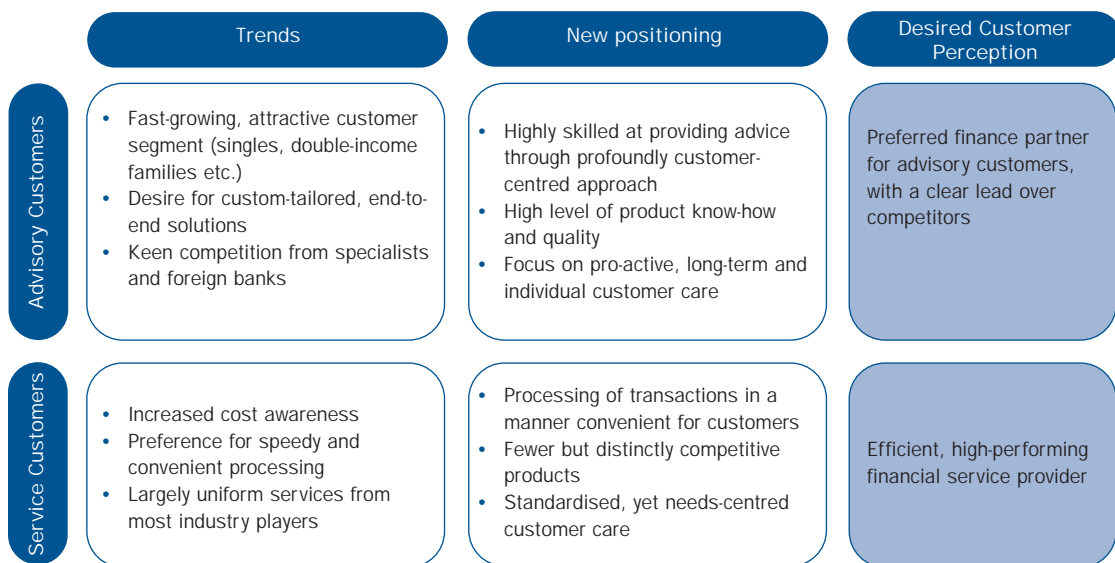
Under the banner of "Retail Reorientation", Erste Bank therefore initiated an extensive project with the following main goals:

- Achieving a **more sharply defined positioning** in the market
- Making **better use of existing customer relationships**
- **Cutting the cost** of existing retail distribution, for example through greater differentiation of branches, investing in technology, deploying new media and using alternative channels

According to their needs, retail customers were segmented into "advisory customers" and "service customers". A **new strategic positioning** was developed on the basis of this distinction.

*A look ahead at 1999*

The current year for Erste Bank is set to be dominated by the determined **nation-wide refocusing of the retail arm**, which was successfully initiated last year. This process draws on the experience gained in a pilot project in 1998, which resulted in significant profit increases in the trial areas relative to other regions. Also, customer surveys indicate that the new approach to distribution has been well-received.



**New branch types  
of Erste Bank AG**

Distribution of  
branches on  
31 Dec. 1998

<b>Advisory centre (large)</b> Complete product range	68
<b>Branch (mid-sized)</b> Extended range of services, some individual advice and standard advice	56
<b>Sub-branch (small)</b> Limited range of services & standard advice	40
<b>Service outlet</b> Limited range of services	106
<b>Total</b>	<b>270</b>

The specific objective for 1999 is to position Erste Bank as, first and foremost, Austria's **best advisory bank**, and to continue to strengthen its market position among core target groups. These are retail customers with above-average incomes and members of the liberal professions, where Erste Bank is the market leader with a share of 33%.

At the same time the **service business** is to be made **more profitable** by consistently standardising the range of services, and offering customers a choice of efficient service and order processing channels. The Bank is also forging ahead with the task of differentiating branch locations in terms of market segments and cost structures, while also continuing reductions in the number of branches. In 1998 the branch network was already reduced by a total of 18 sites (12 of Erste Bank AG and 6 of Salzburger Sparkasse Bank AG).

**Further objectives and activities of Erste Bank for 1999**

- **Centralisation of business functions.** This involves both the extensive centralisation of business and settlement functions. The resources freed up in the process are to be used in sales activities and helping orient central operating functions towards market needs.
- **Development of a fully integrated customer database.** A customised approach to individual clients is indispensable to the efficient and effective harnessing of cross-selling potential. Erste Bank is striving for a unified database solution that fully integrates all media.
- **Development of effective multi-channel management.** Branches are currently Erste Bank's only channel of distribution. However, owing to the exponential growth in

popularity of new media such as the Internet and mobile telephony, as well as rapid changes in customer needs, the branches are increasingly subject to competition from such alternative sales channels. What Erste Bank aims to achieve through effective multi-channel management is to **interconnect the new distribution and business acquisition channels with the existing branch business** as appropriately as possible. We believe a world of opportunity can be tapped by taking advantage of the ability to interact with customers anywhere and at any time. By stepping up the expansion of services provided by stationary automatic teller machines (ATMs) and the use of new communications media, Erste Bank wants to enable customers to carry out most transactions themselves by the year 2000.

**Corporate customers**

Corporate banking figures prominently in the **strategy of concentrating on core businesses**. At the end of 1998 Erste Bank served about 10,000 major and mid-sized corporate customers through two business divisions: Corporate Banking and Key Accounts & Project Finance. From the Vienna head office, the **Key Accounts division** services companies with sales of over ATS 1 billion, whereas small and mid-sized accounts (companies with sales of ATS 10 million to ATS 1 billion) are managed from **14 regional commercial banking centres**. Customer service for the approximately 30,000 corporate customers with sales of less than ATS 10 million is provided by regular branches.

Corporate business was one of the focal points of the **earnings enhancement programme** of 1998. A goal of this initiative was to scrutinise all accounts in this segment by means of a standardised analysis in order to identify additional business potential. About 4,660 of the larger accounts were reviewed through this process, which led to a detailed action plan for boosting profits. Through precisely targeted cross-selling and a shift away from lending business, net commission and fee income was lifted by about 14% compared with the previous year.

In addition to sales-driven progress, there were important operational improvements. Particularly important advances were made with the **workflow of the lending process**, which was redesigned, making loan decisions faster, smarter (managing risk better) and more efficient (selling better)

For 1999 Erste Bank has an **ambitious agenda for further remodelling**. It will rigorously continue the earnings enhancement programme, **restructure unprofitable customer accounts** and **improve the cost structure**. New analytical tools that merge all data on a given customer at Erste Bank are to support customer service officers in these endeavours.

In strategic terms, in 1999 Erste Bank will seek less to expand the volume of business than to **increase the margins on existing and new business**, in order to meet the RoE targets of the overall Group.

### Real estate finance

Overview over the real estate finance business of Erste Bank Group

in ATS billion	Small-scale/ private housing	publicly subsidised housing
Erste Bank (incl. S-Wohnbaubank)	41.7	23.0
S-Bausparkasse	54.0	2.3
<b>Total lending</b>	<b>95.7</b>	<b>25.3</b>

In 1998 Erste Bank Group defended and enlarged its **traditionally strong position** in real estate finance. Total real estate lending rose to **ATS 121 billion**, despite high redemptions caused by the large share of existing loans. Through the **introduction of common branding and joint marketing**, Erste Bank, S-Bausparkasse and S-Wohnbaubank were successfully positioned as a real estate finance group. This position is to be strengthened further through intensified marketing which started in January 1999. In spite of a decline in new construction, especially in Eastern Austria where Erste Bank has the highest market share, Erste Bank Group's total new housing finance business was pushed up by **more than 10%** to ATS 20.8 billion last year, after ATS 18.8 billion in 1997. Erste Bank was able to play a particularly active and profitable part in the growing residential renovation market, thanks to a broad customer base in the core target group and through innovative product policy.

Steady volume growth was also registered in **private mortgage finance**, the market segment that is currently the most fiercely competitive in Austria. With gross new lending of ATS 5.24 billion, the portfolio in this business was expanded by about ATS 2 billion.

### Risk situation

Much of Erste Bank's real estate finance activity is in **publicly subsidised** new construction and publicly subsidised refurbishment of apartment buildings. 90% of this lending is secured by mortgages and speculative financing is avoided. Although the Austrian residential real estate market is currently marked by overcapacity, **credit quality was maintained** at a high level.

### S-Wohnbaubank AG

(Erste Bank stake: 76.5%)

S-Wohnbaubank serves **municipal and social welfare housing construction** by **raising funding in the bond market**. The housing construction bonds, which are placed with the investing public through the distribution channels of Erste Bank, the savings banks, the postal savings bank and Volkskreditbank AG, offer particular investment incentives in the form of tax breaks. New issues in 1998 amounted to ATS 1.4 billion, one-fifth of the market volume. Since its establishment in 1994, S-Wohnbaubank has placed 22 "S-Wohnbauanleihen" (bonds) worth more than ATS 4.3 billion in total, giving it a **market share of 17% of total bond issues** in this segment.

The funds raised in the capital market are not only used to refinance Erste Bank loans to the residential construction industry. Through subsidiaries, about 550 subsidised apartments were built and fully rented out. A further 160 units are in preparation. These projects are carried out by property developers, eliminating the development risk for S-Wohnbaubank.

In future more of the available capital will be invested in the refurbishment of apartment blocks and public buildings, subject to favourable market conditions.



**Bausparkasse der österreichischen Sparkassen AG (S-Bausparkasse)**  
(Erste Bank stake: 100%)

Thanks to the high retail market share of S-Bausparkasse and its solid footing in the Austrian home construction market, the **private mortgage financing** activities of Erste Bank delivered extremely dynamic growth.

With more than 290,300 **new building society contracts** signed in 1998, new savings increased by 13% against the previous year. This once again underscored the company's **leading market position** in Austria.

Total mortgage lending in Austria fell off sharply in 1998. Yet S-Bausparkasse granted loans worth ATS 11.5 billion in 1998, nearly as high as the high level achieved in 1997 (ATS 12.0 billion) and substantially widening its lead over its four rivals. **Market share increased to 34%.**

The classic pattern of saving with building societies is changing rapidly under the influence of lower interest rates and the enlargement of the market to a European scale. In 1999 the development of new products in order to maintain this powerful market position, will continue to be a key task.

## Erste Bank and the savings bank sector

### Strategy for the savings bank sector

One of the thrusts of Erste Bank's three-part strategy is based on its role as **the central institution of the Austrian savings bank sector**. Since the merger with GiroCredit in 1997 Erste Bank, as the central institution, provides liquidity and refinancing for the sector, takes part in syndicated lending, offers money transfer services and acts as a custodian for the savings banks.

The **savings bank sector** as a whole has **lost market share** over the past decade in its core segments of deposits and lending. Intense competition within the sector, an inconsistent approach to the market, lack of co-ordination and significant cost disadvantages have hurt profits and the ability to compete.

The common goal is to bring about a **rapid and sustained improvement** in the earnings and market position of the

savings bank sector **through a profit-oriented allocation of resources and responsibilities.**

This quest is underpinned by the following **key drivers of performance:**

- **Decentralised structure**
- **Regional ties** of savings banks to their local market (high quality of customer relationships)
- **Strong product and processing capability** of Erste Bank

In a **letter of intent** the **substance and structure of co-operation** was specified with the seven largest savings banks in the respective provincial capitals. This agreement provides for **29 co-operative projects** to be carried out in the following four areas:

- Development of an efficient **integrated system for product development** and service provision
- Projection of a **unified identity** in the market
- **Standardisation** of business and marketing strategies for retail and corporate banking
- Development of common, **performance-oriented management systems**

In an **efficient integrated product development and service system**, the sector's products and services are to be jointly designed, developed and delivered. This includes, among other requirements, the development of a common IT platform as the cornerstone of joint corporate development.

To present a **seamless front in the marketplace**, branding and advertising are being unified, marketing planning co-ordinated and a uniform savings bank identity projected to the outside that stresses a commitment to quality.

In the two **central business divisions Retail and Corporate Banking**, the business strategies are to be brought into harmony, optimised and further developed on a co-operative basis. This is being done by standardising the product range, harmonising branch formats and distribution structures as well as standardising approaches to customer service.

The development of **performance-oriented management systems** is intended to secure the motivation required to put plans for joint corporate development into practice.

Implementation of the 29 co-operative projects, planned to occur over a two-to-three-year period, is based on a **voluntary decision** by the participating savings banks to join in. Services rendered internally between sector participants are charged at market prices in order to heighten the competitiveness and earnings of all parties involved.

All regional savings banks not yet formally signed up to this programme have also been **invited to participate** in this joint development, and they are kept informed about progress at all times.

In a **first round of implementation**, 14 sets of tasks were defined on which intensive work has been underway since the beginning of the second half of 1998. **Many of these projects have already come to fruition.**

Three savings banks (Kärntner Sparkasse, Salzburger Sparkasse and Sparkasse Hartberg-Vorau) have **outsourced their securities settlement** to Erste Bank since 1998. About 15 other savings banks are expected to follow suit in 1999.

A number of savings banks have already signed co-operative agreements for **asset/liability management analyses** to be conducted by Erste Bank; nearly half of all savings banks have requested a preliminary analysis.

A purchasing company, **S-BMG Warenbeschaffungsmanagement GmbH**, in which all savings banks are stakeholders, has been established. The sector-wide consolidation of purchasing muscle enables the participating banks to achieve significant cost reductions.

## Erste Bank outside Austria

### From Prague to Zagreb

The **establishment of an extended core market** in Central Europe represents the **third strategy** of Erste Bank. At the beginning of 1998, the International division was split into a Central & Eastern Europe division and an International Business division in acknowledgement of the importance of this strategy.

A key reason for the significance of Central Europe for the future growth of Erste Bank lies in the fact that penetration of financial services in these markets to date is far lower than in Austria or other developed markets.

Selected economic data

	Savings deposits (% GDP)	Bank lending (% GDP)
Austria	116.4	105.0
Czech Republic	61.8	69.1
Hungary	51.2	41.9
Croatia	37.5	36.1

Source: Erste Bank (Sector Report Banks in CEE, July 1998), central banks

Erste Bank defines all the countries immediately adjacent to Austria as primary strategically important markets. Owing to Erste Bank's existing operational presence and the country's comparatively stable economic environment, Croatia has also joined the list of Erste Bank's target markets.

Strategic priority	New core markets in Central European strategy of Erste Bank
1.	Czech Republic Hungary Croatia
2.	Slovak Republic Slovenia
3.	Poland Romania

With the possible exception of Croatia, Romania and the Slovak Republic, the markets in Erste Bank's sights are **candidates for accession to the EU in the medium term.** The macroeconomic benefits and effects on national income likely to flow from EU membership would impart additional momentum to the realisation of Erste Bank's retail banking strategy in these countries.

As it is important to attain critical mass swiftly in the growing middle-market segments of the region, Erste Bank intends to strengthen its market presence through further acquisitions.

#### Selected Erste Bank subsidiaries in Central Europe

##### **Erste Bank Hungary Rt.**

(Erste Bank stake: 95.8%)

With 1,106 employees and 59 branches, Erste Bank Hungary (EBH) has the **country's fifth largest retail network**, with a presence in all important commercial centres. With total assets at end-1998 of some ATS 7.5 billion, Erste Bank's subsidiary is one of the 15 largest banks in Hungary. As part of a **comprehensive clean-up of EBH's loan portfolio**, much higher risk provisions were made in 1998 and allocated to specific loans. The resulting net loss for the year of ATS 222.5 million was largely covered by a HUF 2.8 billion capital increase (about ATS 150 million).

The **repositioning of Erste Bank Hungary** is directing the bank's focus towards retail banking and corporate business, particularly small to medium-sized companies.

The **retail financial services market** in Hungary is becoming increasingly attractive, as only about 33% of the population had bank accounts last year and there is growing demand for housing and for residential renovation. EBH's key target groups, families and students, are offered not only the bank's own services but also products provided by the OTTHON savings bank (70% owned by S-Bausparkasse, 15% by Erste Bank Hungary) as well as insurance (in co-operation with Signal, a Hungarian insurer).

The focal customer segment in **corporate banking** comprises small to medium-sized Hungarian companies and existing clients of the Erste Bank Group, the savings banks and strategic partners as well as international corporate clients with operations in Hungary.

##### **Erste Bank Sparkassen (CR) a.s.**

(Erste Bank stake: 66.7%)

In addition to Erste Bank, Allgemeine Bank and Sparkassen AG Oberösterreich owns 28.3% and Bank und Sparkassen AG Waldviertel-Mitte owns 5% of Erste Bank Sparkassen (EBCR). EBCR has been operating as a **universal bank in the Czech Republic since 1993**.

In its headquarters in Prague and five other branches EBCR employs a staff of about 200. It is planned to open a second branch in Prague and to upgrade the representative office in Pilsen to a full branch. The Bank's core business and strength is corporate lending to a select customer base which includes a range of international, Austrian and local clients.

**1998 was a bumper year** for EBCR. The institution ranked 14<sup>th</sup> among all domestic and international banks operating in the Czech Republic. Notwithstanding the highly volatile, weak Czech crown and growing inflation, the volume of business loans was up 23%. It goes without saying that the stringent credit risk criteria of the Erste Bank Group continued to govern lending decisions.

With a view to bolstering its operating presence in the Czech Republic, Erste plans to further develop the retail business of Erste Bank Sparkassen (CR).

#### Important bank and investment banking subsidiaries in Central and Eastern Europe

Country	Erste Bank subsidiaries	% stake	Key figures/description
Hungary	Erste Bank Hungary Rt.	96%	Total assets of about ATS 7.5 billion; 59 branches Brokerage/trading, investment funds, securities research, corporate finance
	Erste Bank Hungary Investment Rt.	100%	
Czech Republic	Erste Bank Sparkassen (CR) a.s.	67%	Total assets of about ATS 10.4 billion; 5 branches
Croatia	Bjelovarska Banka d.d.	25%	Total assets of about ATS 2.7 billion; 22 branches Brokerage, corporate finance, fund management
	Erste Securities Zagreb d.o.o.	89%	
Slovak Republic	Istrobanka a.s.	10%	Total assets of about ATS 8.9 billion; 26 branches
Poland	Bank Rozwoju Eksportu S.A.	2.4%	Total assets of about ATS 37.5 billion; 25 branches Brokerage, securities research Corporate finance, management of privatisation funds
	Erste Securities Polska S.A.	100%	
	Erste Investment Sp. z o.o.	100%	
Romania	Erste Financial Advisors Romania SRL	100%	Corporate finance, privatisation mandates Brokerage, research
	Erste Securities Romania S.A.	100%	

#### ***Bjelovarska Banka d.d., Croatia***

*(Erste Bank stake: 25%)*

In July 1997, Erste Bank and Steiermärkische Bank und Sparkassen AG together bought 50% plus one share in Bjelovarska Banka. This bank, which enjoys a **market share of approximately 90% in Bjelovar** (eastern Croatia), is considered by its two Austrian shareholders as their principal platform for operations in Croatia. It intends to grow into a highly competitive bank reaching beyond its home region.

Bjelovarska Banka now has **22 branches and some 170 employees**. Bjelovarska's main market segments are retail customers and small and mid-sized companies. Austrian and other international customers are predominantly serviced from the Zagreb branch, which is being enlarged.

In 1997 Bjelovarska Banka almost doubled its total assets. In 1998 it delivered further growth in total assets of about 50% to HRK 1,384 million (approximately ATS 2,600 million). Bjelovarska Banka's **return on assets and return on equity is one of the highest** among Croatian financial institutions.

Key objectives for 1999 are the **strengthening of the position of Bjelovarska Banka** as a bank for small to mid-sized corporate accounts and retail customers and a significant widening of its activities in the Zagreb region.

#### ***Investment banking in Central and Eastern Europe***

1998 was a year of **restructuring for investment banking** in Central and Eastern Europe (CEE). Erste Bank took advantage of this to acquire and develop units in the critical countries of the extended home market.

Through its investment banking network in CEE, Erste Bank offers a **wide range of services**, in particular advisory services for capital market financing and corporate finance, privatisation and cross-border mergers and acquisitions (M&A) as well as trading/brokerage, research (equity and fixed income) and asset management.

In the second half of the year Erste Bank took a 60% stake in the corporate finance specialist CDI-Amanda, now called **CDI Erste**. This unit's core activities are advising on equity-driven transactions, acquisition targeting, privatisation, joint ventures and strategic alliances. CDI Erste concentrates on business opportunities in Central Europe.

#### ***New York to Hong Kong***

In 1998 Erste Bank thoroughly **refocused its international business** to align it with its core strategies. The re-grouping outside its Central and Eastern European home markets allows Erste Bank to adjust to the shifting competitive setting of the European single-currency area and a financial industry that is under relentless pressure to rationalise.

After adding, in September 1998, a **branch in Hong Kong** to those in London and New York, Erste Bank has a solid presence in the world's three most important financial hubs. The representative offices in Europe and overseas were closed down.

Last year the market environment in international business was shaped by the **Russian and Asian crisis**, with two main implications for Erste Bank. **Provisions for international risk increased**. International provisions, excluding provisions in Austria, amounted to ATS 3.3 billion or 1.4% of international lending at 31 December 1998. This represented 62% coverage of foreign problem exposure. The other consequence was that the general widening of lending margins in regions outside the direct path of the crisis enabled Erste Bank to take advantage of lucrative opportunities, notably in synthetic products and short-term trade finance.

In its **three locations in international financial centres**, Erste Bank consistently applied its core business strategy while taking advantage of the specific local opportunities.

#### ***London***

All areas of financing performed very well. Relative to 1997, the London branch raised its **net profit by about 78.5% to ATS 73.6 million**. Total assets jumped by more than 30% to ATS 15.4 billion. Thanks in large part to the sharp increase in the number of company takeovers in the UK and continental Europe, the volume of acquisition financing and specialised finance grew strongly. Aircraft and trade finance activities were greatly expanded.

At the end of December 1998 the total number of employees amounted to 43. Effective cost management kept growth in operating expenses to just 3.8%. **The cost/income ratio of the London branch was pared down to 55%**.

In October 1998 "First Austrian International", a subsidiary of Erste Bank AG, was physically integrated into the premises

of the existing Erste Bank branch and operations were harmonised. The branch also prepared to begin foreign exchange trading and money dealing, which commenced in January 1999.

#### **New York**

With a net profit of ATS 63.4 million (USD 5.4 million), the **New York branch substantially bettered the previous year's result** of ATS 1 million. The mainspring of this improvement was growth of 18.2% in net interest income and reduced risk related costs.

The activities of the **New York branch were refocused in 1998**, with Treasury activity shifting from money market dealing to securities trading. The branch also opened a trading desk for interest rate derivatives.

**Total lending of the New York branch** grew steeply in 1998 to ATS 17.7 billion (ATS 11 billion in 1997). This success was due above all to stronger performance in corporate finance. The year also saw a dramatic growth in the securities portfolio, from ATS 3 billion to ATS 9.6 billion.

A **cost/income ratio of 58%** was achieved for 1998, assisted by reduced operating costs as well as the growth in operating revenues.

#### **Hong Kong**

The newly opened branch took over lending responsibility for all of the Asia/Pacific region. Even in the extremely difficult environment prevailing last year, **the branch succeeded in breaking even** over what was a truncated financial year. For 1999, the target for asset growth has deliberately been set at a low rate of 2.6%. The intention is not to raise the target until the region is well along the road to lasting recovery. However, the relatively high margins compensate for the lower volume growth.

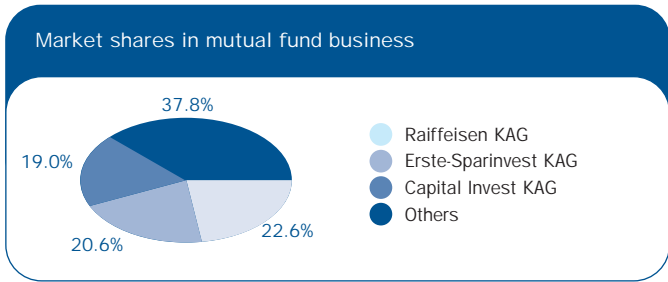
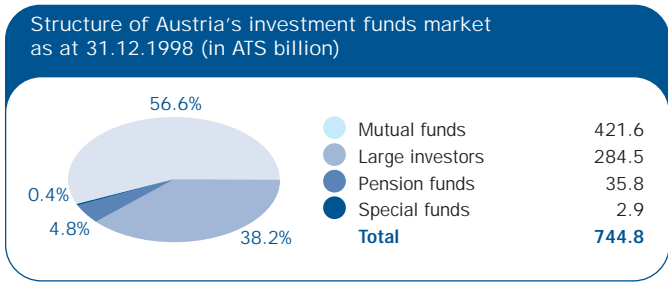
## Erste Bank in financial markets

### Treasury, Trading and Sales

In 1998 trading activities developed against the backdrop of a surging volatility in all markets, as events in Russia raised investors' risk aversion. In the latter half of the year, liquidity was therefore extremely low, a trend aggravated in the final months by the imminent introduction of the Euro.

The implementation of the **earnings enhancement programme** in Erste Bank's trading operations cushioned the effect of the market trend. The programme had the following strategic thrusts:

- A **sales offensive in Austria** placed more weight on securities trading with savings banks and third-party banks. In fixed income activities, the division succeeded in lifting trading volume to ATS 274.6 billion, despite growing demand for alternative higher-yielding, structured products. In equities, Erste Bank was able to maintain its **uncontested top rank on the Vienna Stock Exchange** with a market share of 23%. The strong equity trading results reaffirmed the business philosophy of earning 80% of income from 20% of clients, most of whom are large UK and US brokerages. On the **Austrian Futures and Options Exchange (ÖTOB)**, Erste Bank achieved an average **market share of 40%** in 1998, making it the **market leader in Austria**.
- In a **marketing drive abroad**, Erste Bank began to set up and develop decentralised sales units in London, New York and Hong Kong. In Poland, the Czech Republic, Hungary and Croatia, the sales activities were integrated into the local investment banking subsidiaries.



- In Erste Bank's trading activities the **deepening of customer relationships** was also a priority. A wide array of services relating to legal requirements such as balance sheet and asset/liability management was marketed, especially to the savings bank sector. Use of the growth potential arising from cross-selling played, and will continue to play, a growing role.
- The Treasury division mounted a **product marketing offensive** concentrating on structured products. A continuous decline in margins on traditional fixed income securities is steadily swelling demand for innovative products. Erste Bank made the most of this scope for growth in 1998, booking an outstanding trading result, in particular with savings banks.
- **Expansion of the range of products on offer in Central Europe** was progressed by setting up a separate Central and Eastern Europe desk. At a volume of ATS 180 billion, the planned sales increase was surpassed in spite of unfavourable market conditions.

### Asset Management

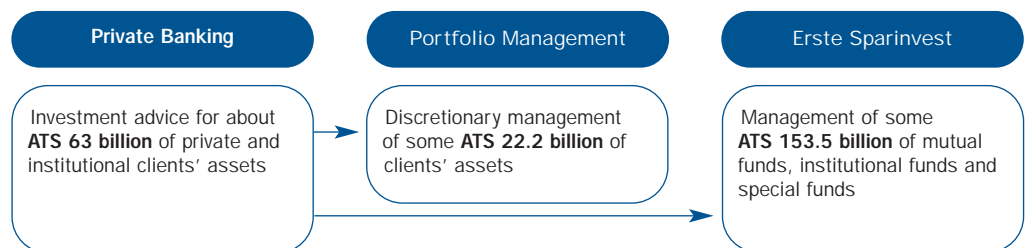
Due to the growing importance of commission driven income, Erste Bank regards its Asset Management activities as an important part of its core business. They encompass Private Banking, Portfolio Management and the investment funds of Erste-Sparinvest.

#### Private Banking

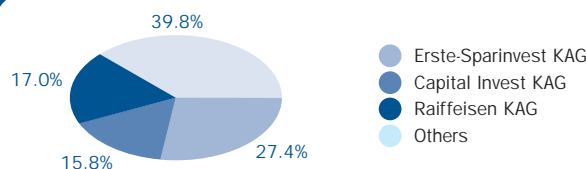
In its **Private Banking** unit, Erste Bank offers investment advice for private individuals investing ATS 10-15 million or more and for institutional clients. Funds under management at the end of 1998 stood at ATS 63 billion and were invested through Erste Sparinvest and, to a lesser degree, through the Portfolio Management unit. Investment advisory activities are very closely integrated into the retail network, which provides the client base. The philosophy in this segment stresses complete customer care and a focus on using Erste Bank Group products, but also third party products when required to achieve an optimum portfolio structure.

#### Portfolio Management

Client assets managed on a discretionary basis by the **Portfolio Management** team of Erste Bank showed an increase in 1998 from ATS 16.6 to ATS 22.2 billion, which constitutes **growth of 33.7%**. In 1998 the portfolios managed by the former GiroCredit and Die Erste units were merged into this Portfolio Management department.



### Market shares in retail mutual funds



Erste Capital-Management (ECM), a fund based portfolio management product, grew strongly during the year. At the end of 1998, the approximately 15,700 ECM portfolios had assets of ATS 17.0 billion under management. Most of the new inflow of capital came from customers of Erste Bank branches, while more than 300 portfolios are currently managed for savings banks clients. Erste Asset Management (EAM), the individualised management service for portfolios exceeding ATS 20 million, reached an asset volume of ATS 4.0 billion at year-end. In addition, about 123 accounts under the new, individualised, computer-assisted portfolio management service, ECM Plus, contained ATS 1.2 billion of client assets. This makes Erste Bank the **number one portfolio manager** in Austria.

For the third quarter of 1999, ECM is also to be offered on the IT systems of the savings banks, which promises appreciable volume growth.

#### Erste-Sparinvest KAG

(Erste Bank: 83.3%)

Dwindling capital market and deposit interest rates continued to fuel growth of the Austrian investment fund industry in 1998. **Total funds under management in Austria soared 31.2%** from ATS 567.5 billion to ATS 744.8 billion. Erste-Sparinvest, created in July 1998 by the merger of Die Erste KAG and SparInvest Austria KAG, was able to boost its assets under management from ATS 119.8 billion to ATS 153.5 billion. With a **market share of 20.6%**, Erste-Sparinvest is thus the second largest Austrian fund management company.

#### Erste-Sparinvest is the market leader in retail mutual funds.

For Erste Bank as for the savings banks, mutual funds have become the most important form of investment. In this segment, accounting for ATS 421.6 billion or 56.6% of the total investment fund market, Erste-Sparinvest has a **market share of 27.4%**. About 60% of the retail fund business newly won in 1998 came from Erste Bank, while 40% originated in the savings bank sector.

By stepping up business development efforts, the volume of the **institutional fund business**, which has grown apace in recent years, was increased by ATS 14.5 billion and the share in the ATS 323.2 billion market increased from approximately 10.2% to 11.8%.

### Erste Bank's investments in other banks and corporations

The **equity investment strategy** of Erste Bank supports the implementation of the one-stop-shop financial services strategy. The share of non-core investments, particularly industrial holdings, is gradually being reduced. In 1998 Erste Bank sold equity in Eybl International AG and Georg Fischer AG.

In addition to investments already described in connection with the divisional review, Erste Bank has several important stakes in other companies:

#### Salzburger Sparkasse Bank AG

(Erste Bank stake: 68.5%)

Salzburger Sparkasse Bank AG reported a profit on ordinary activities of ATS 82 million in 1998, a significant improvement over 1997.

In early 1998 a **sweeping earnings enhancement programme** was implemented with similar objectives to those at Erste Bank. Immediate measures led to significant improvement in risk management and controlling. Furthermore, board members' responsibilities were reshuffled and the second layer of management was radically reduced from 26 to 9 positions. The payroll was reduced by 65 employees to 796 at the end of 1998 and the branch network trimmed by 6 outlets to 75 locations. The cost of loan risk exposure was cut to 0.52% of annual lending through successful restructuring. In 1998 the subsidiary increased its use of Erste Bank services and outsourced certain tasks, especially in administration.

The measures initiated in 1998 to **improve profitability**, such as a marketing offensive in retail banking, the programme to raise corporate banking earnings, branch streamlining and reduction of the workforce, will be continued in 1999. The return on equity of Salzburger Sparkasse is to be elevated to 12% by the year 2000.

Other Erste Bank investments in savings banks at 31.12.1998

	Stake
Sparkasse Mühlviertel-West Bank AG	40.0%
NÖ Sparkasse Hainburg Bank AG	26.0%
Sparkasse Bregenz Bank AG	25.0%
Sparkasse Kremstal-Pyhrn AG	24.1%
Sparkasse der Stadt Knittelfeld AG	9.0%
Sparkasse Voitsberg-Köflach Bank AG	6.0%

#### **Intermarket Factoring AG**

*(Erste Bank stake: 54%)*

Total turnover of Intermarket Group grew by 13% last year to ATS 19.4 billion. The principal operating company, Intermarket Factoring Bank, accounted for ATS 13.1 billion of this, maintaining its market share of 52% in a steadily growing market. Intermarket Group also offers its **factoring finance and forfaiting services** through its subsidiaries in Central Europe. Heightened demand from small and mid-sized companies in Austria had an especially positive effect on fee income in 1998.

#### **IMMORENT AG**

*(Erste Bank stake: 100%)*

After IMMORENT AG was merged with DIE ERSTE Leasing GmbH, two companies, DIE ERSTE Bauträger AG and Realia-Immobilien-Verwertungs-AG, were brought under its umbrella to take advantage of product synergies. IMMORENT AG's activities cover Property and Equipment Leasing, International Leasing, Planning and Construction, and Project Management Business.

In leasing, IMMORENT's **13% market share** is the largest in Austria. It is also the **market leader in property leasing** with a share of 20.5%.

By intensifying sales efforts in the Czech Republic, Slovak Republic, Croatia and Slovenia, new domestic and international leasing business increased to ATS 4.3 billion, a rise of 26% against 1997.

In Austria, new business reached ATS 3.5 billion, of which ATS 2.1 billion was in the property segment and ATS 1.4 billion on the equipment side. New leasing business abroad amounted to ATS 0.8 billion, and is set to expand further in 1999.

#### **EBV-Leasing GmbH & Co KG**

*(Erste Bank stake: 100%)*

As the **third largest Austrian automobile leasing company**, EBV-Leasing succeeded in adding market share in this business, with contributions from bank and insurance distribution channels.

The company took up an attractive offer for future co-operation in automobile leasing with 35 savings banks across Austria.

The product range was streamlined, so that EBV-Leasing handled only car leasing and transferred the equipment business to IMMORENT AG. **New motor vehicle leases alone grew 22%** to ATS 1.8 billion in 1998. New leasing contracts numbered 7,258.

In 1999 EBV-Leasing aims to develop its distribution channels further and use them more intensively, especially channels provided by savings banks and insurance companies.

#### **DIE ERSTE Immobilien AG**

*(Erste Bank stake: 25%)*

DIE ERSTE Immobilien AG is a **property investment company** of Erste Bank that reinvests profits. In 1998, despite enduring adverse conditions in the real estate market, such as overcapacity in the office, residential, and industrial markets, it increased its Group profit by 27% year on year to ATS 42 million.

Through a fourth-quarter capital increase of a nominal ATS 303.75 million, the company now has liquid assets of about ATS 1 billion for new investment. With share capital of ATS 1.5 billion, DIE ERSTE Immobilien AG is **one of Austria's largest real estate corporations**.

The company continues to invest in multiple-use properties with a majority residential component. The completion of a project with 158 subsidised housing units and 2,000m<sup>2</sup> of commercial and office space at the end of October 1998 increased the floor space owned by DIE ERSTE Immobilien AG to over 94,000m<sup>2</sup>.



#### **Sparkassen Versicherung AG**

*(Erste Bank stake: 38.9%)*

The popularity of life insurance as a conservative, forward-looking investment tool and especially the trend towards private pension plans, are ever on the rise in Austria. Thanks to the strong sales performance of Erste Bank and the savings banks, S-Versicherung has a market share of around 8.5% in life insurance premiums written in Austria and ranks 4<sup>th</sup> among the country's largest life insurers.

In 1998 premiums saw impressive growth, rising by 32% to almost ATS 4.9 billion. The contribution of life insurance clearly towered above that of the non-life business. Both regular and single-premium income achieved double-digit growth.

S-Versicherung's strategy of jump-starting sales of private pension products in Austria together with Erste Bank and the savings banks produced high demand for the "S-Privat-Pension" product. A total of nearly 27,700 contracts were signed in 1998, with an insurance value of approximately ATS 7 billion, an increase of more than 100%. In terms of total premium volume, S-Privat-Pension already generates almost half of the company's entire business.

#### **VMG – Erste Bank Versicherungsmakler GmbH**

*(Erste Bank stake: 100%)*

After transferring the retail segment to S-Versicherung, VMG is now an independent insurance broker managing a portfolio that generated ATS 560 million in premiums in 1998.

The company is one of the country's largest insurance brokers, with sales conducted predominantly by the corporate banking centres of Erste Bank and VMG's own sales force. To add distribution channels, co-operative agreements are being prepared with the main savings banks of the federal states. This new sales channel is expected to help produce double-digit growth in life and property insurance business.

In contrast to the standardised offerings of competing insurance companies, VMG provides custom-tailored insurance services. Its core clientele are companies and self-employed individuals.

#### **Vereinigte Pensionskasse AG**

*(Erste Bank stake: 25.1%)*

Serving primarily large companies, Vereinigte Pensionskasse again expanded its business considerably in 1998. The number of persons entitled to future and current pension payments climbed by 7,400 to 53,000. The company manages assets of ATS 8.5 billion, which represents a market share of over 20% in the corporate pension fund market.

#### **BVP-Pensionskassen AG**

*(Erste Bank stake: 17%)*

More than 250 additional companies last year chose BVP as their pension fund manager, raising to 1,300 the number of companies served. The number of prospective and current beneficiaries went up to 33,000, an increase of about 20%. In December 1998 Erste Bank and Salzburger Sparkasse themselves transferred the future pension entitlements of their current employees to BVP.

In 1998 total assets mushroomed, growing by about 80% to approximately ATS 7.5 billion, while contributions rose to ATS 0.5 billion. The company has some 20% of the corporate pension fund market.

BVP fared well in the volatile capital market environment, achieving a return of 9.3%, enabling the company to pay its first dividend.

## Erste Bank and its organisation

### Organisation and information technology (IT)

The attainment of Erste Bank's three strategic aims relies on strong support from the **Organisation & IT** service unit for the following tasks:

- **System integration** at Erste Bank and Erste Bank Group
- **Standardisation and harmonisation** of organisational management and IT in the **savings bank sector**
- Support for **cost reduction and earnings enhancement programmes**
- Development of **electronic distribution channels**
- **System development in subsidiaries abroad**

Key internal mandates of the Organisation & IT service unit are the development of **new core competencies** in areas such as business process organisation, electronic sales channels, international organisation and the reorganisation of SPARDAT as well as the development of an **overall IT architecture for the Erste Bank Group**.

#### **S-Objektmanagement GmbH**

*(Erste Bank stake: 100%)*

A decision was taken in February 1999 to hand the responsibility for all infrastructure to S-Objektmanagement GmbH. By means of **centralised management** and through the introduction of a **new blueprint for the use of office space** (cut in office locations, desk-sharing models) cost reductions should be rapidly perceptible within the Group and, in a second step, within the entire savings bank sector. The other main activities of the company include project management, operational management and the central management of real estate.

#### **SPARDAT Sparkassen-Datendienst GmbH**

*(Erste Bank stake: 66.3%)*

In its function as the IT service provider for the savings bank sector, SPARDAT can largely be considered a non-profit organisation. The unit's growth in 1998 was on target. The operating income of ATS 2 billion was sufficient to cover the operating expenses for services provided to its owners, and orders from third-party customers yielded a profit on ordinary activities of ATS 26 million.

In close co-operation with Erste Bank, a project was launched to standardise IT on SPARDAT systems as a foundation for a shared IT platform covering Erste Bank and the savings banks.

In 1999 SPARDAT is devoting itself mainly to standardisation and to integrating IT employees to be taken over from Erste Bank, along with the attendant redrawing of the organisational structure.

#### **Informations-Technologie Austria GmbH (IT Austria)**

*(Erste Bank stake: 26.4%)*

IT Austria, the successor company to SPARDAT Austria Rechenzentrum GmbH after the direct purchase of its shares by the SPARDAT shareholders, will in future operate as a company in its own right that is legally independent of SPARDAT. Its existing hardware centre was merged with the counterpart companies of Creditanstalt and Erste Bank.

#### **Payment and settlement services**

By founding its own wholly-owned payments company, S-GZV, Erste Bank **split off its entire domestic payments operations**. 40% of the subsidiary's transaction volume is generated by Erste Bank and 60% by other Group companies, the savings bank sector and third-party banks. In 1998 S-GZV processed 181 million transactions, an increase of 4.8%.

## Major projects

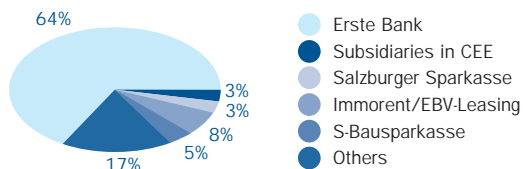
### *Euro-Conversion*

Erste Bank completed the Euro conversion of all its IT systems at the earliest time possible. **Thus all systems were fully prepared for the new currency by 2 January 1999**, making Erste Bank the first Austrian bank to achieve the conversion. In the Erste Bank Group and the savings bank sector, a total of 240 application systems on 2,200 servers and 16,600 personal computers were adapted, while over 350 public events reached more than 20,000 customers throughout Austria. Erste Bank AG, the parent institution, spent some ATS 225 million in direct costs and capital investments last year on the conversion to Euro.

### *Year 2000*

Early on, Erste Bank recognised the challenges which the turn of the millennium would bring for information technology and other electronic systems. It was quick to form **Y2K Program Management**, its central task force responsible for **group-wide planning**. The Bank is working with the savings banks to plan for the date transition. Corporate clients in Austria and abroad are being informed and, to the extent possible, are examined for their year-2000-readiness. The project schedule calls for Erste Bank AG and the Group to be year-2000 compliant by 30 June 1999. By end of March 1999, the necessary changes were 80% complete. Contingency plans will have been tested by 30 September, and a simulation of the roll-over weekend (31 December 1999 to 3 January 2000) will be conducted in October at the latest. Erste Bank AG has **budgeted** ATS 188 million for the year-2000 **transition project**.

Share of the main Group companies in the 1998 Group operating result



### Summary of consolidated results

**Operating income** increased by 6.4% in 1998 to ATS 16.8 billion. While net interest income declined, commission and trading income both grew strongly.

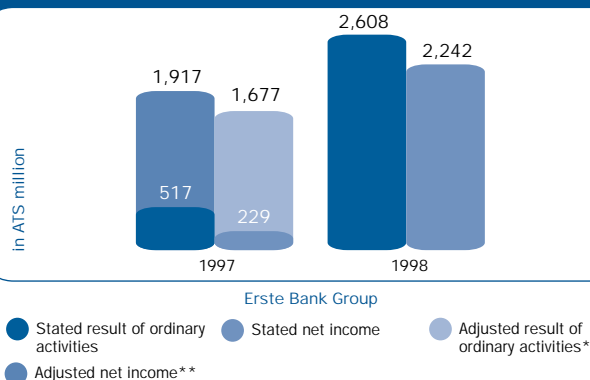
The growth in **operating expenses**, which increased 6.1% to ATS 12.3 billion, was slower than the growth in operating income. Erste Bank therefore achieved a marginal reduction in the **cost/income ratio** from 73.5% to 73.3%.

**Risk provisions and write-downs** on bad debts were ATS 2.2 billion, substantially less than in the previous year (ATS 3.8 billion) which included an extraordinary general provision of ATS 1 billion. After value adjustments in respect of securities held as financial fixed assets and participating interests, the company achieved a **result of ordinary activities** of ATS 2.6 billion in 1998. While the figure for 1997 was ATS 0.5 billion, the figure adjusted for exceptional items, which relate in particular to the one-off provisions undertaken in 1997, was ATS 1.9 billion. The growth in the result of ordinary activities in 1998 against the adjusted 1997 figure is therefore 36%.

Erste Bank Group **net income**, after tax and minority interests, was ATS 2.2 billion in 1998, an increase of 33.7% against the 1997 figure of ATS 1.7 billion (adjusted for exceptionals, i.e. provisions and merger-related costs). The stated 1997 net income was ATS 0.2 billion.

The **Return on Equity (RoE)** therefore increased from 9.7% in 1997 to 11.6% in 1998.

Result of ordinary activities and Group net income (after minorities)



\* Adjusted for the extraordinary risk provision undertaken in 1997 (ATS 1 billion)  
 \*\* Adjusted for the extraordinary risk provision and merger related expenses (ATS 174 million)

### Shareholder information

**Earnings per share** increased to around ATS 53 in 1998 (1997 values were ATS 40, adjusted for exceptionals, and ATS 12, unadjusted, both according to ÖVFA – Austrian association of financial analysts).

**Shareholders' equity** including net income (after minorities), was ATS 20.1 billion at 31 December 1998, against ATS 18.7 billion in 1997. The **book value per share** was therefore ATS 453 at year end 1998.

In 1998 the Erste Bank **share price** moved between a low of ATS 508 (EUR 36.92) and a high of ATS 860 (EUR 62.50). Based on the closing price of ATS 627.50 (EUR 45.60) on 30 December 1998, the **market capitalisation** was ATS 27.86 billion (EUR 2.025 billion).

For fiscal 1998 the Management Board proposes a **dividend** of 16% (ATS 16 or EUR 1.16 per share) for subscribed capital, the same as for fiscal 1997.

## Group Profit & Loss Accounts

### Operating income

As shown in the table below, Erste Bank's **operating income** was characterised by a structurally-led decline in net interest income and other operating income, but also by a marked increase in net income from commissions and trading activities.

Structure of the operating income

in ATS million	1997	Share of op. income	1998	Share of op. income
Net interest income <sup>1</sup>	10,241	64.7%	10,043	59.6%
Net commission inc.	3,308	20.9%	4,179	24.8%
Net inc. from trading	1,245	7.9%	1,624	9.7%
Other operating inc.	1,040	6.5%	995	5.9%
<b>Total</b>	<b>15,834</b>	<b>100.0%</b>	<b>16,841</b>	<b>100.0%</b>

<sup>1</sup> Including income from securities and participating interest

### Net interest income

Net interest income together with income from securities and investments reached ATS 10.0 billion in 1998, representing a decline of 1.9% against 1997. Net interest income alone declined by 3.3% to ATS 9.1 billion. The main reasons for the decline were intense competition, in particular in credit business, the lack of attractive opportunities for making loans, due to the persistent weakness of demand for credit, and an increase in interest payments on liquidity reserves to the Austrian savings banks. Not only Erste Bank AG but also some of its subsidiaries, in particular in the mortgage business, were affected by these developments. However, interest income from foreign branches and subsidiaries increased.

**Income from securities** grew by 34.3% to ATS 0.5 billion, mainly due to a higher average business volume. Income from investments and affiliated companies did not change significantly.

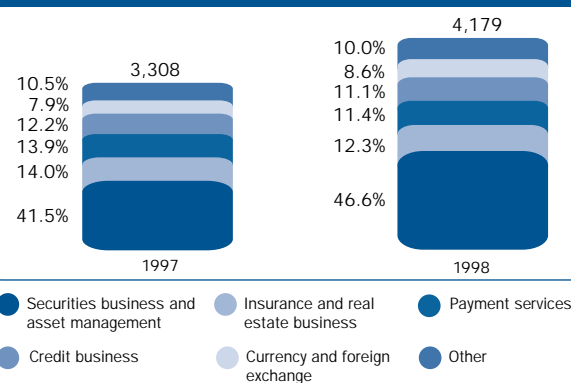
Driven by high levels of interbank business during the course of the year, **average total assets** reached ATS 720 billion in 1998, against about ATS 675 billion in 1997. Due to low interest margins in interbank business and the otherwise low level of net interest income, the **net interest margin** declined by 0.1 percentage points to 1.4%.

### Operating income beyond net interest income

Low interest rates and the resultant trend towards seeking alternatives to low yielding savings products contributed to growth in **net commission income** which increased very strongly, rising 26.3% to ATS 4.2 billion. This was mainly due to growth in securities and asset management business.

Commission income also developed positively in credit and foreign exchange business. Commission income from insurance business grew strongly but declined in real estate finance (i.e. in the "Bauspar" business).

Split of the commission income in 1997 and 1998 (in ATS million)



The **net income from trading activities** includes price gains and losses from securities business, interest and equity derivatives and foreign exchange instruments. In 1998 Erste Bank achieved exceptional growth of 30.4% in this item to ATS 1.6 billion. The decisive factor behind this growth was improved performance in securities business, which was mainly driven by Erste Bank's strong position in the relatively low risk bond business, where declining interest rates led to strong growth in prices.

There were also good results in interest rate derivatives. Income from foreign exchange business was static.

**Other operating income** is focused on income from construction services, payment settlements, external income from suppliers, payments linked to the completion of leasing

and mortgage contracts, asset sales, rent, re-invoiced real estate leasing charges and the release of provisions for liabilities and charges. This item declined by ATS 72 million to ATS 995 million, mainly since provisions were not released as occurred in the previous year.

### Operating expenses

Structure of the operating expenses

in ATS million	1997	Share of op. expenses	1998	Share of op. expenses
Personnel expenses	6,699	57.6%	7,002	56.8%
Administrative expenses	3,153	27.1%	3,456	28.0%
Depreciation and amortisation	1,037	8.9%	1,115	9.0%
Other operating expenses	742	6.4%	767	6.2%
<b>Total</b>	<b>11,631</b>	<b>100.0%</b>	<b>12,340</b>	<b>100.0%</b>

**Personnel expenses** increased by 4.5% to ATS 7 billion mainly due to integration-related expenses from exceptionally high redundancy and severance payments and the exceptionally strong increase in expenses for foreign subsidiaries in Central Europe.

A restraint on the growth in personnel expenses was the decline in the number of staff by 275 or 2.9% of the workforce to 9,082 at 31.12.98. In this regard it has to be noted that a change in the scope of consolidation resulted in a net increase of 120 employees in 1998.

Number of employees in the Erste Bank Group

	31.12.1997	31.12.1998
In Austria	7,723	7,369
Abroad, ex-Austria	1,634	1,713
<b>Total</b>	<b>9,357</b>	<b>9,082</b>
of which on maternity leave	519	529

The above figures do not take account of staff at Sparkassen-Datendienst GmbH (SPARDAT), the IT company jointly operated with the savings banks, which had about 600 employees at year end 1998. This is because this company, in which Erste Bank acquired a majority stake in 1998, was only consolidated as of 31.12.98, and as such, SPARDAT staff had no impact on Erste Bank Group's 1998 profit and loss statement.

In 1998 Erste Bank and the Salzburger Sparkasse Bank AG transferred pension rights of active, suitably entitled staff to the pension fund BVP. The required provisions and the responsibility for future provisions were also transferred in full to the pension

fund at end 1998, meaning that Erste Bank and Salzburger Sparkasse will in future not be required to contribute to pension provisions. The underfunding of pensions to the tune of ATS 723 million resulting from the difference between the transferred capital and the existing provisions is booked under accruals, which will be released over a period of 10 years and will appear under extraordinary expenses. While the transfer of pension provisions will also result in a corresponding decline in interest income, Erste Bank expects a significant positive net effect from 1999 onwards, the size of which is dependant on the prevailing interest rate.

**Administrative expenses** as well as **depreciation and amortisation** in respect of assets both grew significantly. In both cases the increases were largely attributable to expenses and investments in connection with the merger of Die Erste and GiroCredit to form Erste Bank in 1997. Key cost items related to office space and IT and associated investments as well as exceptional write-offs related to branch mergers.

**Other operating expenses**, which only grew slightly, mainly consist of compensation payments for the arrangement of "Bauspar" contracts (building society's savings agreements), operating costs for real estate leasing contracts and the cost of materials and other expenses for third party services from suppliers.

The growth in **total operating expenses** by 6.1% was largely due to merger-related expenses. While all such expenses appeared under operating expenses in the 1998 accounts, in 1997 ATS 174 million of merger-related exceptional expenses appeared under extraordinary expenses. If 1997 figures are adjusted to remove these expenses, the growth in total operating expenses comes to 4.5%.

The **cost/income ratio** of Erste Bank Group declined marginally from 73.5% in 1997 to 73.3% in 1998. If the 1997 basis for the cost/income ratio is adjusted to include the exceptional merger-related expenses, then the 1997 cost/income ratio is 74.5%.

At the end of 1998 a **cost reduction programme** was initiated, which is planned to produce a reduction in operating expenses of ATS 1.0 billion over the next two years.

## Risk Situation of Erste Bank Group

In 1998, Erste Bank Group's **customer related assets** (loans and advances to non-bank customers and banks, securities portfolio, guarantees and documentary credits, each gross before deduction of bad debt provisioning) increased from ATS 682 billion by approximately 5.1% to ATS 717 billion, therefore growing faster than the balance sheet total.

The following breakdown clearly shows the orientation of Erste Bank Group towards retail business. Loans and advances to private customers of ATS 103.4 billion (14.4%) rank in third place after banks and insurance companies (share of approximately 35%, driven by the interbank business) and loans and advances to public entities (14.7%). In total, the share of these three industries, which carry a below-average default risk, amounts to approximately 64%.

Industry breakdown of customer related assets

Line of Business	Amount in ATS million	Share of total volume
Banking and Insurance Business	251,001	35.0%
Public Entities	105,377	14.7%
Private Customers	103,420	14.4%
Production of Goods	50,008	7.0%
Real Estates	49,849	7.0%
Trade	41,201	5.6%
Building Business	30,520	4.3%
Tourism	19,543	2.7%
Others	65,801	9.3%
<b>Total</b>	<b>716,720</b>	<b>100.0%</b>

The focus on public administration as well as the banking and insurance business is also reflected in the breakdown by rating grades. For example, the share (as concerns customer rating) of the best class of risks amounts to approximately 89%.

### Regional breakdown of customer related assets of Erste Bank Group

The graph below shows the **regional allocation of customer-related assets**. 89% consist of loans and advances to customers in Austria, Western Europe or North America. The share of loans and advances to customers from the enlarged home market Central Europe amounts to approximately 5% and is expected to be gradually extended in the business year 1999. The regions Asia, Central and South America as well as Australia and Africa together have a share of approximately 6%.

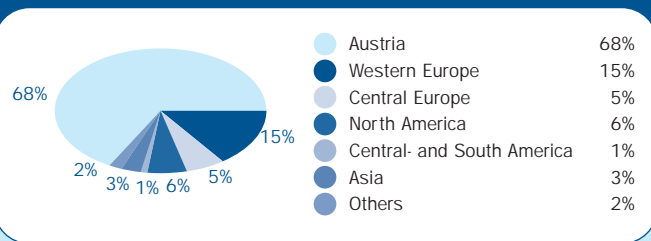
While the proportion of customer-related lending business accounted for by domestic operations (ATS 488 billion or 68%) roughly corresponds to the allocation of the total portfolio, international operations show a considerable predominance (62% of all foreign lendings) in the banking and insurance business (high share of the interbank business), followed by public administration with approximately 10%. The remaining 28% of international operations are accounted for by several different industries without specific predominance and therefore show a good degree of diversification.

### Credit portfolio to non-banks

The credit portfolio (loans, guarantees and documentary credits, each before deduction of bad debt provisioning) of Erste Bank Group amounts to ATS 403 billion (approximately 56% of customer related assets). 26% of this credit portfolio involved lending to retail customers. Approximately 84% was lending to domestic customers.

In spite of the problems with Russia and Southeast Asia encountered in 1998, the breakdown of the **credit portfolio by rating grades** (as concerns customer ratings) shows a share of more than 85% for the rating grades with low risk of default.

Regional breakdown of customer related assets 1998 according to country of domicile



**Trend in international credit risk structure of Erste Bank in 1998**

The risk environment in the first half of the year was shaped by the widening Asian crisis whereas in the second half of 1998 the dominant event in terms of risk was the Russian crisis. With the exception of a few Asian countries such as Japan, battered both by its home-grown problems and the woes of its Asian neighbours, the problems in financial markets were thus almost completely contained in the emerging markets, chiefly Russia, Indonesia, Malaysia and Thailand.

The following table shows Erste Bank's loan books and risk provisions for the countries and regions most affected by the crises of 1998. This representation of country exposure differs from the representation otherwise used in this report in the following items which explains potential differences:

- The **risk country principle** applies in contrast to the home country principle.
- The bank exposure is not only allocated to the country exposure of the seat of the bank but also to the country exposure of the country of the respective branch against which an exposure exists.
- As of consignment business is recorded in the country exposure as utilisation of the credit facility even if no actual draw-down has yet been made (ie. the country exposure also includes unused commitments).

**Russia**

Provisions for Russia were built up in 1998, with an emphasis on sovereign and bank risks. The relatively low level of provisioning for **corporate lending** is justified by the fact that this is predominately associated with **performance risk**, where the payments are made by Western parties and the risk of the Russian partners is limited to their performance under delivery agreements. Excluding these performance risks the coverage ratio amounts to over 66.5%.

**Asia**

The level of risk provisioning for Asia provides about 63% cover for problem loans (including a general provision for properly serviced Indonesian private bank loans). The degree of cover for the individual problem segments (such as Indonesian or Malaysian corporate commitments) is of a similar order.

The valuation of lending which results from these provisions adequately reflects the risk of the loans, which is constantly monitored.

Structure of exposures and provisions in selected countries

in ATS million	Exposure	Problem <sup>1</sup> exposure	Provisions <sup>2</sup>	Coverage ratio problem exp.
<b>Russia</b>				
Sovereign and state owned banks <sup>3</sup>	915	915	565	62%
Private banks	94	94	92	98%
Corporate <sup>4</sup>	384	100	17	17%
<b>Total</b>	<b>1,393</b>	<b>1,109</b>	<b>674</b>	<b>61%</b>
<b>Asian Problem countries<sup>5</sup></b>				
Sovereign	1,190	1	0	0%
Banks	3,194	70	30	43%
Corporate	1,485	589	395	67%
<b>Total</b>	<b>5,869</b>	<b>660</b>	<b>425</b>	<b>65%</b>
<b>Other Tiger countries<sup>6</sup></b>				
Sovereign	0	0	0	0%
Banks	3,693	0	0	0%
Corporate	1,332	75	37	49%
<b>Total</b>	<b>5,025</b>	<b>75</b>	<b>37</b>	<b>49%</b>
<b>Asia<sup>7</sup></b>				
Sovereign	3,273	1	0	0%
Banks	21,260	70	30	43%
Corporate	4,156	782	504	64%
<b>Total</b>	<b>28,689</b>	<b>853</b>	<b>534</b>	<b>63%</b>

<sup>1</sup> Problem exposure: outstanding debt, where timely payment of interest or repayment of capital seems endangered.  
<sup>2</sup> Includes write-offs from securities in 1998  
<sup>3</sup> Includes ATS 540 million of restructured loans to the former Soviet Union  
<sup>4</sup> All corporate lending constitutes either Russian performance risk with Western payment risk or are adequately collateralised  
<sup>5</sup> Thailand, Malaysia, Indonesia, Korea, Philippines  
<sup>6</sup> Hong Kong, Singapore, Taiwan  
<sup>7</sup> Includes PR China, India, Japan, Pakistan and Sri Lanka

**Summary**

The level of risk provisioning for the two currently crucial segments of the loan book was considered appropriate when this report went to print. The Brazil crisis in January 1999 prompted a careful analysis of the Bank's Brazilian exposure. As lending in Latin America focuses primarily on trade financing and to some extent on project financing, this review revealed no requirement for additional provisioning.



### Development of risk provisions

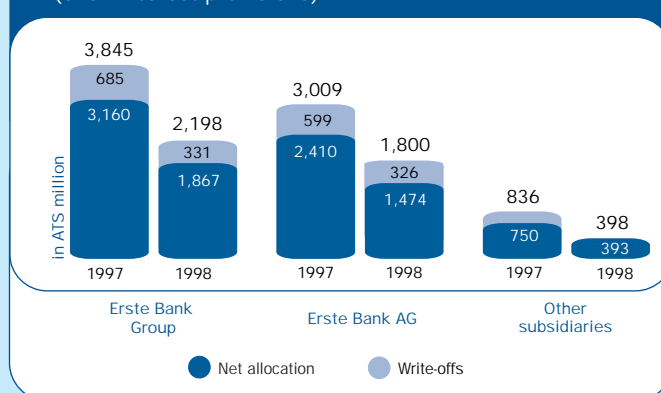
The sum of allocations and releases which are included in the result of ordinary activities (and therefore excluding net allocations to value adjustments against open claims for interest payments, included in net interest income – items 11 and 12 of the Group Profit and Loss Account) was ATS 1.9 billion in 1998. If one adds direct write-offs on claims the value rises to ATS 2.2 billion, compared with ATS 3.8 billion in 1997. The ATS 1 billion general provision created in 1997 was allocated to individual loans and therefore released. The creation of individual loan provisions is included under the allocations, while the release of the general provision appears under releases.

Foreign exposure accounted for around 40% of the net allocations to risk provisions and direct write-offs which together amounted to ATS 2.2 billion.

Detail on items 11 and 12 of the Group Profit and Loss Account  
in ATS million

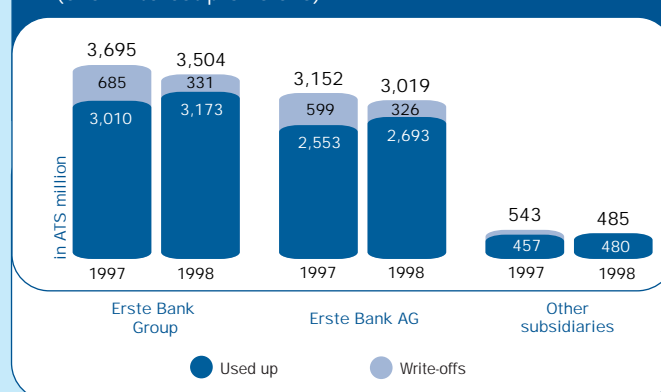
	1997	1998
Allocation of risk provisions	-4,476	-3,659
Direct write-downs against claims	-722	-383
Adjustment for valuation of securities held in the portfolio available for sale	-115	-192
<b>Total negative contribution to P&amp;L</b>	<b>-5,313</b>	<b>-4,234</b>
Release of risk provisions	1,316	1,792
Income from claims previously written off	37	52
Valuation gains from securities held in the portfolio available for sale	294	198
<b>Total positive contribution to P&amp;L</b>	<b>1,647</b>	<b>2,042</b>
<b>Net contribution to P&amp;L</b>	<b>-3,666</b>	<b>-2,192</b>
of which from claims	-3,845	-2,198
of which from securities held in the portfolio available for sale	179	6

### Net allocation to loan loss provisions and write-offs (excl. interest provisions)



Risk provisions in the form of one time value adjustments, including those for open claims for interest payments as well as other provisions, reached ATS 15.9 billion or 3.9% of total lending at year-end 1998.

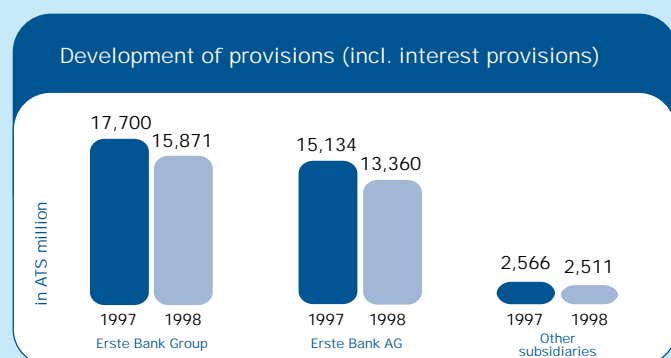
### Provisions used up and loans' write-offs (excl. interest provisions)



### Development of the risk provisions

in ATS million	At 1.1.1998	Allocations 1998	Releases 1998	Used 1998	Valuation/Transfer*	At 31.12.1998
One off value adjustments	16,606	3,351	1,792	3,974	302	14,493
Country provisions	1,094	308	—	—	-24	1,378
<b>Total</b>	<b>17,700</b>	<b>3,659</b>	<b>1,792</b>	<b>3,974</b>	<b>278</b>	<b>15,871</b>

\* In order to ensure comparability the allocations and releases in respect of adjustments of open claims for interest payments, which have already been offset against net interest income, are included in the Valuation/Transfer column above.



The decrease in provisions from 17.7 billion in 1997 to ATS 15.9 billion in 1998 was mainly due to a high level of utilisation of provisions. This resulted from the fact that in 1998, provisions were used for a greater number of risks which had been subject to insolvency procedures for several years and had been allowed for in value adjustments. This has not stopped the pursuit of legitimate claims against debtors in such cases.

**Income from securities and investments (items 13 and 14 of the Group Profit and Loss Account)**

There was an expense overhang of ATS 151 million from the valuation of the securities investment portfolio. However, participating interests in affiliated companies produced profits from disposals of ATS 450 million. The main reason for this was the partial sale through an IPO of Eybl International AG, which is now listed on the EASDAQ stock market for growth companies.

**Tax**

Together with some of its subsidiaries (in particular S-Bausparkasse AG, Immorent AG, Erste-Sparinvest KAG) Erste Bank forms a single entity relationship for tax purposes. This entity was exempt from Austrian corporation taxation in 1998 due to tax losses carried forward. This situation will continue to prevail in 1999.

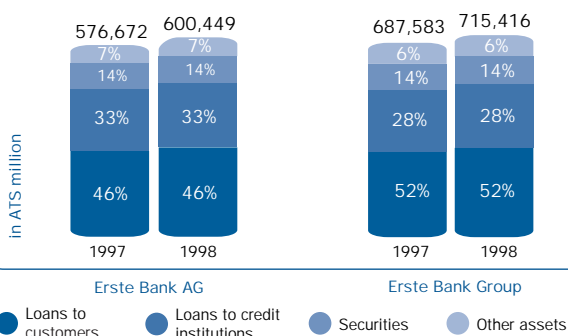
The position denoted as taxes on income and earnings relates in particular to foreign earnings related taxes, non-creditable foreign capital gains taxes and adjustments for prior tax reserves. Tax charges on small Austrian subsidiaries are also a contributing factor.

The overall effective tax rate in 1998 was 6%, and this is expected to rise to 10% in 1999.

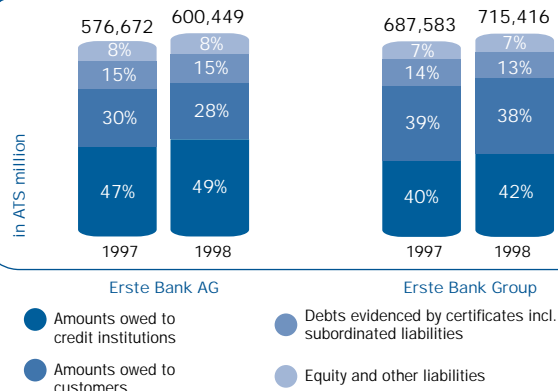
Detail on items 13 and 14 of the Group Profit and Loss Account in ATS million

	1997	1998
Expenses for valuation and sale of investments	- 152	- 249
Expenses for revaluation of securities in investment portfolio	- 83	- 263
<b>Total negative contribution to P&amp;L</b>	<b>- 235</b>	<b>- 512</b>
Income from disposals	40	699
Gains from sale of securities held in investment portfolio	175	112
<b>Total positive contribution to P&amp;L</b>	<b>215</b>	<b>811</b>
<b>Net contribution to P&amp;L</b>	<b>- 20</b>	<b>299</b>
of which from investments	- 112	450
of which from securities held in investment portfolio	92	- 151

## Asset structure



## Liabilities structure



## Balance Sheet

Total assets increased by 4.0% to ATS 715.4 billion in 1998. Risk weighted assets increased by 2.7% to ATS 364.5 billion.

On the **asset side** the increase was above all due to strong growth of 7.5% (ATS 13.2 billion) to ATS 190.6 billion in loans and advances to credit institutions. However, this was associated with a reduction in deposits at central banks. Assets in the form of securities increased by 4.8% to ATS 103.4 billion and loans and advances to customers increased 4% to ATS 372 billion (mainly due to growth in business outside Austria), in line with overall growth of the balance sheet and a strong performance under adverse market conditions.

Key developments on the **liabilities side** included an increase in equity capital by 11.6% to ATS 22.4 billion, the strengthening of capital resources through a substantial increase in subordinated liabilities (up 23.7% to ATS 15.4 billion), and the impact of growth in re-financing on amounts owed to credit institutions (up 9.7% to ATS 301.8 billion). Erste Bank also achieved an increase in customer deposits (+1.3% to ATS 269.4 billion), while savings deposits declined marginally (-0.1% to ATS 187.4 billion) reflecting the persistent trend towards the purchase of higher-yielding products.

The main changes in individual line items can be seen in the 1998 flow of funds statement for the Erste Bank Group shown below:

in ATS million	Source of Funds	Share in %	Use of Funds	Share in %
<b>Assets</b>				
<b>Increase in assets</b>				
			13,219	29.5
			14,361	32.1
			8,067	18.0
			52	0.1
			534	1.2
			1,023	2.3
<b>Reductions in assets</b>				
	6,034	13.5		
	3,389	7.6		
<b>Liabilities</b>				
<b>Increases in liabilities</b>				
	26,743	59.7		
	3,334	7.4		
	2,955	6.6		
	2,330	5.2		
<b>Reductions in liabilities</b>				
			3,799	8.5
			378	0.8
			3,352	7.5
<b>Total</b>	<b>44,785</b>	<b>100.0</b>	<b>44,785</b>	<b>100.0</b>

**Equity Capital and Capital Resources**

The **total equity capital** of the Erste Bank Group including net income and minority interests grew by 11.6% (ATS 2,330 million) to ATS 22,372 million. Minority interests increased by ATS 903 million to ATS 2,264 million, in particular due to the placement of participation rights by a subsidiary. As a result, equity attributable to shareholders in Erste Bank reached ATS 20,108 million at year end 1998, an increase of 7.6% (ATS 1,427 million) year on year.

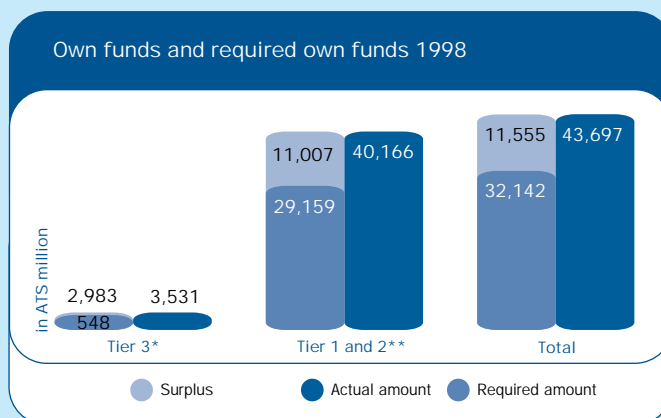
Total capital at 31 December 1998. was ATS 43,697 million, implying a solvency ratio of 11.0% (against 11.1% in 1997), well ahead of the legal minimum of 8%. This includes capital to cover new requirements introduced in 1998 according to §22b of the Austrian Banking Act as well as short term subordinated capital attributable to open foreign exchange positions, which together amounted to ATS 2,983 million. The legal minimum requirement is ATS 32,142 million, implying a coverage of 136%.

The **core capital** of the Erste Bank Group according to the Austrian Banking Act stood at ATS 22,169 million per 31 December 1998., implying a tier 1 ratio of 6.1%, the same level as the previous year.

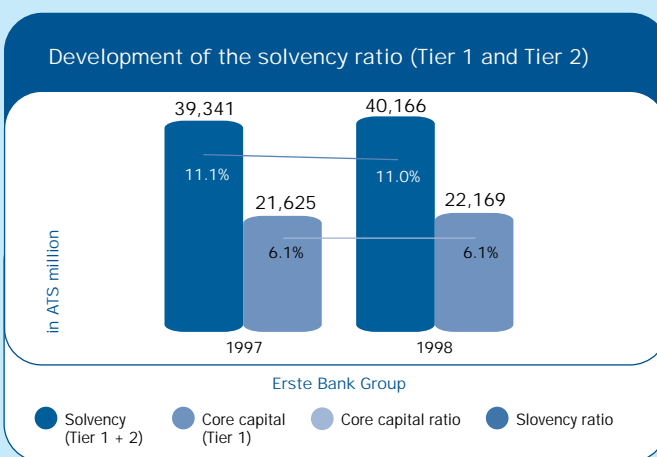
In February 1999 Erste Bank issued, through a Group subsidiary, EUR 100 million of **capital attributable to tier 1 capital**, which resulted in a marked strengthening of the bank's capital adequacy, raising the tier 1 ratio by about 0.4% in relation to the risk weighted assets as of 31 December 1998.

**Paid-up capital**

The nominal share capital of ATS 4,436,079,900 is made up of 44,360,799 bearer shares with a nominal value of ATS 100 each. The group also has participation capital with a nominal value of ATS 5,000,000.



\* Tier 3-own funds are taken into account for the first time in 1998 for fulfilling the own funds requirement of the trading book and the open foreign exchange position.  
 \*\* After deductions pursuant to Sec. 23 para. 13 Banking Act



# Erste Bank Consolidated Financial Statements

Erste Bank Group  
Balance Sheet as of 31st December, 1998

Assets	Notes*	ATS '000	ATS '000	31/12/1998 ATS '000	31/12/1997 ATS '000
<b>1) Cash in hand, balances with central banks and post office banks</b>				<b>9,263,170</b>	15,296,996
<b>2) Treasury bills and other bills eligible for refinancing with central banks</b>				<b>45,267,212</b>	48,655,786
a) Treasury bills and similar securities			44,288,679		48,034,188
b) Other bills eligible for refinancing with central banks			978,533		621,598
<b>3) Loans and advances to credit institutions</b>	27, 50			<b>190,600,605</b>	177,381,741
a) Repayable on demand			19,911,819		19,970,588
b) Other loans and advances			170,688,786		157,411,153
<b>4) Loans and advances to customers</b>	27, 50			<b>374,029,051</b>	359,668,158
<b>5) Debt securities and other fixed-income securities</b>	53			<b>44,695,821</b>	36,628,646
a) Issued by public bodies			12,719,141		8,467,513
b) Issued by other borrowers			31,976,680		28,161,133
of which are own issues		1,911,629			1,700,495
<b>6) Shares and other variable-yield securities</b>	53			<b>13,413,548</b>	13,362,138
<b>7) Participating interests</b>	51, 52, 68			<b>5,523,627</b>	4,516,825
of which are:					
in credit institutions stated at equity			826,389		727,307
in other credit institutions			1,141,232		605,143
in other companies stated at equity			1,790,945		1,470,628
<b>8) Shares in affiliated undertakings</b>	51, 52, 68			<b>1,622,488</b>	2,094,708
of which are in companies stated at equity			1,532,801		2,082,257
<b>9) Intangible fixed assets</b>				<b>1,775,875</b>	1,165,886
<b>10) Tangible fixed assets</b>				<b>10,854,939</b>	8,755,154
of which are:					
land and buildings occupied for its own use			5,644,307		3,686,481
<b>11) Own stocks or shares</b>				<b>29,939</b>	1,936
par value			3,487		461
<b>12) Other assets</b>	55			<b>16,379,696</b>	18,948,610
<b>14) Prepayments and accrued income</b>	54			<b>1,960,071</b>	1,106,619
<b>Total assets</b>	31			<b>715,416,042</b>	<b>687,583,203</b>
<i>Off Balance Sheet items</i>					
<b>1) Foreign assets</b>	27			<b>230,111,860</b>	215,704,903

\* These reference pages provide further information.

Erste Bank Group  
Balance Sheet as of 31st December, 1998

Liabilities and shareholders' equity	Notes*	ATS '000	ATS '000	31/12/1998 ATS '000	31/12/1997 ATS '000
<b>1) Amounts owed to credit institutions</b>	31, 50			<b>301,792,837</b>	275,050,490
a) repayable on demand			48,668,951		16,618,846
b) with agreed maturity dates or periods of notice			253,123,886		258,431,644
<b>2) Amounts owed to customers</b>	31, 50			<b>269,377,984</b>	266,044,138
a) Savings deposits			187,372,082		187,494,472
of which are:					
aa) Repayable on demand		18,954,417			14,410,898
bb) With agreed maturity dates or periods of notice		168,417,665			173,083,574
b) Other debts			82,005,902		78,549,666
of which are:					
aa) Repayable on demand		47,063,458			38,597,394
bb) With agreed maturity dates or periods of notice		34,942,444			39,952,272
<b>3) Debts evidenced by certificates</b>	50			<b>69,594,466</b>	73,393,074
a) Debt securities issued			36,035,258		46,744,978
b) Others			33,559,208		26,648,096
<b>4) Other liabilities</b>	55			<b>15,682,548</b>	18,351,845
<b>5) Accruals and deferred income</b>				<b>1,218,928</b>	1,234,010
<b>6) Provisions for liabilities and charges</b>	55			<b>11,079,006</b>	11,745,264
a) Provisions for severance payments			1,447,638		1,396,350
b) Provisions for pensions			4,437,008		6,101,742
c) Tax provisions			364,795		441,339
d) Other provisions			4,829,565		3,805,833
<b>7) Subordinated liabilities</b>	55			<b>15,415,940</b>	12,461,391
<b>8) Supplementary capital</b>				<b>8,881,705</b>	9,260,304
<b>9) Paid-in capital</b>	32, 56			<b>13,198,307</b>	13,198,307
a) Subscribed capital			4,441,080		4,441,080
b) Capital reserves			8,757,227		8,757,227
of which restricted		8,757,227			8,757,227
<b>10) Earned capital</b>				<b>6,909,544</b>	5,483,113
a) Profit reserves			4,667,099		5,253,761
b) Net income			2,242,445		229,352
<b>11) Minority interests (including share in net income)</b>	32			<b>2,264,777</b>	1,361,267
Equity (total of positions 9-11)				<b>22,372,628</b>	20,042,687
<b>Total liabilities and shareholders' equity</b>	31			<b>715,416,042</b>	<b>687,583,203</b>

\* These reference pages provide further information.

Erste Bank Group  
Balance Sheet as of 31st December, 1998

Liabilities and shareholders' equity	Notes*	ATS '000	ATS '000	31/12/1998 ATS '000	31/12/1997 ATS '000
<i>Off Balance Sheet Items</i>					
<b>1) Contingent liabilities</b>				<b>32,842,828</b>	36,342,497
of which are:					
a) Acceptances and endorsements arising from rediscounted bills of exchange		1,811			5,210,087
b) Guarantees and assets pledged as collateral security		31,293,158			30,066,511
<b>2) Commitments</b>				<b>86,944,988</b>	93,925,836
of which are:					
commitments arising from sale and repurchase transactions		14,959,019			18,529,808
<b>3) Liabilities arising from fiduciary transactions</b>				<b>8,190,592</b>	9,015,351
<b>4) Qualifying capital pursuant to section 24 of the Banking Act</b>	32, 59			<b>43,696,779</b>	39,341,232
<b>5) Required capital pursuant to section 22 of the Banking Act</b>	32, 59			<b>32,141,662</b>	28,379,615
<b>6) Foreign liabilities</b>				<b>231,475,250</b>	210,060,606
Unrecognised pension liability pursuant to the transitional regulations contained in Article X(3) of the Financial Reporting Act	55			<b>900,233</b>	1,342,354

\* These reference pages provide further information.



Erste Erste Bank Group  
Profit and Loss Account for the year ended 31st December, 1998

	Notes*	ATS '000	ATS '000	1998 ATS '000	1997 ATS '000
<b>1) Interest income and similar income</b>	25			<b>39,009,374</b>	38,771,691
of which are from fixed-income securities		7,549,398			6,993,934
<b>2) Interest expense and similar expenses</b>				<b>- 29,879,575</b>	- 29,331,208
<b>I. Net interest income</b>	25			<b>9,129,799</b>	<b>9,440,483</b>
<b>3) Income from securities and participating interests</b>				<b>913,239</b>	799,631
a) Income from shares, other equity instruments and variable-yield securities			478,174		355,955
b) Income from participating interests			310,991		354,617
c) Income from shares in affiliated undertakings			124,074		89,059
<b>4) Commission and fee income</b>	25			<b>5,043,712</b>	3,970,244
<b>5) Commission and fee expenses</b>				<b>-864,795</b>	- 661,640
<b>6) Net profit from trading activities</b>	25			<b>1,623,355</b>	1,244,703
<b>7) Other operating income</b>	25, 63			<b>995,386</b>	1,040,246
<b>II. Operating income</b>	24, 62			<b>16,840,696</b>	<b>15,833,667</b>
<b>8) General administrative expenses</b>				<b>- 10,457,559</b>	- 9,851,942
a) Personnel expenses	26		- 7,001,653		- 6,699,252
of which are:					
aa) Wages and salaries		- 5,016,357			- 4,680,503
bb) Social security contributions as well as levies and compulsory contributions dependent upon wages and salaries		- 1,192,121			- 1,178,788
cc) Other employee benefits		- 115,677			- 107,511
dd) Expenses for retirement benefits		- 674,514			- 524,729
ee) Allocation/release to the pension provision		- 21,912			- 115,743
ff) Allocation/release to the provision for severance compensation		18,928			- 91,978
b) Other administrative expenses			- 3,455,906		- 3,152,690
<b>9) Depreciation and amortisation in respect of assets, balance sheet items 9 and 10</b>	26			<b>- 1,114,877</b>	- 1,037,253
<b>10) Other operating expenses</b>	63			<b>- 767,046</b>	- 741,958
<b>III. Operating expenses</b>	26			<b>- 12,339,482</b>	<b>- 11,631,153</b>
<b>IV. Operating result</b>				<b>4,501,214</b>	<b>4,202,514</b>

\* These reference pages provide further information.

Erste Bank Group  
Profit and Loss Account for the year ended 31st December, 1998

	Notes*	ATS '000	ATS '000	1998 ATS '000	1997 ATS '000
IV. Operating result continued				4,501,214	4,202,514
11) Value adjustments in respect of loans and advances and provisions for contingent liabilities and for commitments	27			- 4,234,173	- 5,313,397
12) Reversal of value adjustments in respect of loans and advances and provisions for contingent liabilities and for commitments	27			2,042,206	1,647,892
13) Value adjustments in respect of securities held as financial fixed assets, participating interests and shares in affiliated undertakings	30			- 512,766	- 235,611
14) Reversal of value adjustments in respect of securities held as financial fixed assets, participating interests and shares in affiliated undertakings	30			811,795	215,545
V. Result of ordinary activities	24			2,608,276	516,943
15) Extraordinary income				40,879	7,278
16) Extraordinary expenses	63			- 168,278	- 289,288
17) Extraordinary result (subtotal of items 15 and 16)				- 127,399	- 282,010
18) Taxes on income	30, 63			- 78,658	- 21,646
19) Other taxes, not shown under Item 18				- 44,728	- 1,871
VI. Net income				2,357,491	211,416
20) Minority interests				- 115,046	17,936
VII. Net profit after minority interests	24			2,242,445	229,352

\* These reference pages provide further information.



Erste Bank der oesterreichischen Sparkassen AG  
Balance Sheet as of 31st December, 1998

Assets	ATS	ATS	31/12/1998 ATS	31/12/1997 ATS '000
<b>1) Cash in hand, balances with central banks and post office banks</b>			<b>7,399,145,714.20</b>	13,312,330
<b>2) Treasury bills and other bills eligible for refinancing with central banks</b>			<b>42,256,931,114.70</b>	44,334,397
a) Treasury bills and similar securities	41,400,120,803.40			43,779,034
b) Other bills eligible for refinancing with central banks	856,810,311.30			555,363
<b>3) Loans and advances to credit institutions</b>			<b>192,091,384,777.16</b>	179,172,952
a) Repayable on demand	20,121,890,160.05			17,316,361
b) Other loans and advances	171,969,494,617.11			161,856,591
<b>4) Loans and advances to customers</b>			<b>274,060,505,967.42</b>	261,740,755
<b>5) Debt securities and other fixed-income securities</b>			<b>35,933,003,337.83</b>	28,157,590
a) Issued by public bodies	6,580,569,291.22			3,712,498
b) Issued by other borrowers	29,352,434,046.61			24,445,092
of which are own issues	1,879,137,373.22			1,470,628
<b>6) Shares and other variable-yield securities</b>			<b>8,270,613,926.42</b>	8,813,962
<b>7) Participating interests</b>			<b>4,536,129,843.39</b>	3,776,830
of which are in credit institutions	1,504,963,718.21			909,152
<b>8) Shares in affiliated undertakings</b>			<b>16,649,922,965.90</b>	16,203,457
of which are in credit institutions	9,158,823,888.86			8,448,663
<b>9) Intangible fixed assets</b>			<b>1,038,452,344.98</b>	588,616
<b>10) Tangible fixed assets</b>			<b>2,995,715,185.68</b>	2,695,936
of which are land and buildings occupied for its own use	1,341,872,371.56			1,373,260
<b>11) Own stocks or shares</b>			<b>29,938,900.50</b>	1,936
par value	3,487,200.00			461
<b>12) Other assets</b>			<b>13,892,160,866.03</b>	17,436,267
<b>14) Prepayments and accrued income</b>			<b>1,294,719,495.09</b>	437,396
<b>Total assets</b>			<b>600,448,624,439.30</b>	<b>576,672,424</b>
<i>Off Balance Sheet items</i>				
<b>1) Foreign assets</b>			<b>211,618,937,144.04</b>	200,115,333

Erste Bank der oesterreichischen Sparkassen AG  
Balance Sheet as of 31st December, 1998

Liabilities and shareholders' equity	ATS	ATS	31/12/1998 ATS	31/12/1997 ATS '000
<b>1) Amounts owed to credit institutions</b>			<b>291,304,301,315.26</b>	272,239,589
a) repayable on demand		53,041,922,631.82		19,583,654
b) with agreed maturity dates or periods of notice		238,262,378,683.44		252,655,935
<b>2) Amounts owed to customers</b>			<b>172,163,365,845.31</b>	170,369,622
a) Savings deposits		105,583,110,821.93		106,527,379
of which are:				
aa) Repayable on demand	10,174,189,055.84			10,082,764
bb) With agreed maturity dates or periods of notice	95,408,921,766.09			96,444,615
b) Other debts		66,580,255,023.38		63,842,243
of which are:				
aa) Repayable on demand	40,025,796,898.73			32,785,507
bb) With agreed maturity dates or periods of notice	26,554,458,124.65			31,056,736
<b>3) Debts evidenced by certificates</b>			<b>68,569,652,882.59</b>	65,404,808
a) Debt securities issued		37,558,064,748.17		43,440,542
b) Others		31,011,588,134.42		21,964,266
<b>4) Other liabilities</b>			<b>12,742,729,755.39</b>	15,642,952
<b>5) Accruals and deferred income</b>			<b>1,017,885,414.01</b>	1,099,398
<b>6) Provisions for liabilities and charges</b>			<b>7,635,444,137.71</b>	8,330,838
a) Provisions for severance payments		1,055,780,368.00		1,064,758
b) Provisions for pensions		3,168,080,025.00		4,633,469
c) Tax provisions		230,857,465.57		222,691
d) Other provisions		3,180,726,279.14		2,409,920
<b>7) Subordinated liabilities</b>			<b>14,599,115,053.09</b>	11,819,641
<b>8) Supplementary capital</b>			<b>7,414,094,000.00</b>	7,701,404
<b>9) Subscribed capital</b>			<b>4,441,079,900.00</b>	4,441,080
<b>10) Capital reserves</b>			<b>8,757,227,000.00</b>	8,757,227
a) Restricted		8,757,227,000.00		8,757,227
<b>11) Profit reserves</b>			<b>2,967,023,000.00</b>	1,384,363
a) Legal reserve		470,000,000.00		470,000
b) Other reserves		2,467,084,000.00		912,426
c) Reserve for own stocks or shares		29,939,000.00		1,937
<b>12) Reserve pursuant to section 23(6) of the Banking Act</b>			<b>7,414,486,000.00</b>	7,110,204
<b>13) Accumulated profits</b>			<b>711,059,135.94</b>	711,014
<b>14) Untaxed reserves</b>			<b>711,161,000.00</b>	1,660,284
a) Valuation reserve resulting from special depreciation		471,829,000.00		1,409,128
b) Other untaxed reserves		239,332,000.00		251,156
of which are:				
investment allowance pursuant to section 10, 1988 Income Tax Act	216,881,000.00			228,705
Rent reserve pursuant to section 11, 1988 Income Tax Act	22,451,000.00			22,451
<b>Total liabilities and shareholders' equity</b>			<b>600,448,624,439.30</b>	<b>576,672,424</b>

Erste Bank der oesterreichischen Sparkassen AG  
Balance Sheet as of 31st December, 1998

Liabilities and shareholders equity	ATS	ATS	31/12/1998 ATS	31/12/1997 ATS '000
<i>Off Balance Sheet Items</i>				
<b>1) Contingent liabilities</b>			<b>29,445,174,458.72</b>	33,424,302
of which are:				
a) Acceptances and endorsements arising from rediscounted bills of exchange	1,811,259.48			4,931,927
b) Guarantees and assets pledged as collateral security	29,443,363,199.24			28,492,375
<b>2) Commitments</b>			<b>77,918,496,452.35</b>	82,672,503
of which are:				
commitments arising from sale and repurchase transactions	14,685,388,597.19			18,409,808
<b>3) Liabilities arising from fiduciary transactions</b>			<b>5,870,717,128.26</b>	5,875,950
<b>4) Qualifying capital pursuant to section 23 of the Banking Act</b>			<b>44,349,855,806.59</b>	39,836,560
<b>5) Required capital pursuant to section 22 of the Banking Act</b>			<b>26,509,759,726.77</b>	22,550,833
<b>6) Foreign liabilities</b>			<b>212,245,195,874.79</b>	191,092,287
unrecognised pension liability pursuant to the transitional regulations contained in article X (3) of the Financial Reporting Act			<b>872,534,158.00</b>	1,307,570

Erste Bank der oesterreichischen Sparkassen AG  
Profit and Loss Account for the year ended 31st December, 1998

	ATS	ATS	1998 ATS	1997 ATS '000
<b>1) Interest income and similar income</b>			<b>30,698,911,409.21</b>	29,996,642
of which are from fixed-income securities	6,406,024,108.51			5,984,686
<b>2) Interest expense and similar expenses</b>			<b>- 24,520,720,433.30</b>	- 23,628,216
<b>I. Net interest income</b>			<b>6,178,190,975.91</b>	<b>6,368,426</b>
<b>3) Income from securities and participating interests</b>			<b>1,363,586,295.50</b>	1,086,826
a) Income from shares, other equity instruments and variable-yield securities	257,012,853.37			249,065
b) Income from participating interests	297,099,231.70			137,521
c) Income from shares in affiliated undertakings	809,474,210.43			700,240
<b>4) Commission and fee income</b>			<b>3,564,612,087.11</b>	3,116,836
<b>5) Commission and fee expenses</b>			<b>- 721,918,768.86</b>	- 638,924
<b>6) Net profit from trading activities</b>			<b>1,436,059,635.19</b>	1,042,383
<b>7) Other operating income</b>			<b>77,416,168.64</b>	98,579
<b>II. Operating income</b>			<b>11,897,946,393.49</b>	<b>11,074,126</b>
<b>8) General administrative expenses</b>			<b>- 7,681,201,514.66</b>	- 7,222,417
a) Personnel expenses	- 4,869,102,130.62			- 4,759,577
of which are:				
aa) Wages and salaries	- 3,423,229,800.75			- 3,275,489
bb) Social security contributions as well as levies and compulsory contributions dependent upon wages and salaries	- 820,594,337.51			- 799,000
cc) Other employee benefits	- 111,422,181.71			- 104,288
dd) Expenses for retirement benefits	- 548,512,036.65			- 465,999
ee) Allocation/release to the pension provision	16,052,932.00			- 42,604
ff) Allocation/release to the provision for severance compensation	18,603,294.00			- 72,197
b) Other administrative expenses	- 2,812,099,384.04			- 2,462,840
<b>9) Depreciation and amortisation in respect of assets, balance sheet items 9 and 10</b>			<b>- 670,521,739.91</b>	- 558,805
<b>10) Other operating expenses</b>			<b>- 22,921,112.95</b>	- 36,182
<b>III. Operating expenses</b>			<b>- 8,374,644,367.52</b>	<b>- 7,817,404</b>
<b>IV. Operating result</b>			<b>3,523,302,025.97</b>	<b>3,256,722</b>

Erste Bank der oesterreichischen Sparkassen AG  
Profit and Loss Account for the year ended 31st December, 1998

	ATS	ATS	1998 ATS	1997 ATS '000
IV. Operating result continued			3,523,302,025.97	3,256,722
11) Value adjustments in respect of loans and advances and provisions for contingent liabilities and for commitments			- 3,749,700,253.27	- 4,224,537
12) Reversal of value adjustments in respect of loans and advances and provisions for contingent liabilities and for commitments			1,944,132,899.63	1,366,728
13) Value adjustments in respect of securities held as financial fixed assets, participating interests and shares in affiliated undertakings			- 447,510,280.39	- 166,563
14) Reversal of value adjustments in respect of securities held as financial fixed assets, participating interests and shares in affiliated undertakings			618,911,819.41	177,303
V. Results of ordinary activities			1,889,136,211.35	409,653
15) Extraordinary income			888,246.19	4,508
16) Extraordinary expenses			-145,098,457.00	- 282,861
17) Extraordinary result (subtotal of items 15 and 16)			- 144,210,210.81	- 278,353
18) Taxes on income			- 32,988,844.93	- 56,273
19) Other taxes, not shown under item 18			-23,896,839.45	32,939
VI. Net income			1,688,040,316.16	107,966
20) Changes in reserves			- 979,701,970.22	532,787
of which are:				
Allocation to the reserve pursuant to sect. 23(6) of the banking act		- 279,999,955.00		-
Release to the reserve pursuant to sec. 23(6) of the banking act		-		-
VII. Profit for the year			708,338,345.94	640,753
21) Profit brought forward			2,720,790.00	70,261
VIII. Accumulated profits			711,059,135.94	711,014



## Combined 1998 Status Report of Erste Bank and Erste Bank Group

### 1998 Profit Development – Turnaround after Last Year's Restructuring

In 1998, the **profit development** of Erste Bank AG (Erste Bank) and Erste Bank Group was characterised by a turnaround after last year's restructuring.

**Operating income** was increased by 7.4% to ATS 11.9 billion in Erste Bank, and by 6.4% to ATS 16.8 billion in Erste Bank Group, although, just like the year before, **net interest income** declined due to the continuously difficult market situation. **Net commission income** showed a particularly favourable development. Erste Bank's net commission income rose by 14.7%, that of Erste Bank Group by 26.3% in 1998; this above-average development was mainly caused by the securities business. Despite turbulences on the financial markets, there was a considerable increase of **earnings from trading activities**, again resulting mainly from the securities business, but also from the trade with derivatives.

The increase of **operating expenses** of Erste Bank by 7.1% to ATS 8.4 billion and that of Erste Bank Group by 6.1% to ATS 12.3 billion was lower than the increase of operating income. Considering that last year's extraordinary results showed expenditures of ATS 174 million as a result of the merger, such expenditure having been fully retained with operating expenses in 1998, Erste Bank's net growth rate was 4.8% as opposed to 4.5% for Erste Bank Group. Since there were shifts from personnel to other administrative expenses as a result of various spin-offs of EDP and other service activities into subsidiaries, only the sum total of operating expenses is indicative as opposed to the preceding year, in particular as far as Erste Bank AG is concerned.

In 1998 **pension entitlements** of Erste Bank's and Salzburger Sparkasse Bank AG's employees were **transferred** into a pension fund; the necessary cover funds were transferred entirely with effect from 1st January, 1998 so that the two banks no longer need to make provisions for pension accruals for these persons. Since provisions are no longer necessary for pension accruals, there is also no income from interest from the investment of formerly existing accruals, now transferred to the pension fund. However, in total, there is clearly an advantage, whose amount depends on the respective current interest rate level.

As a result of the development described above, the 1998 **operating result** of Erste Bank rose by 8.2% to ATS 3.5 billion, that of Erste Bank Group by 7.1% to ATS 4.5 billion.

As expected, in 1998 **bad debt provisioning and credit write-off requirements** amounted to about ATS 1.8 billion in case of Erste Bank, and to about ATS 2.2 billion in case of Erste Bank Group, thus clearly below the respective figures of the preceding year. In this context, Erste Bank allocated - as planned - to individual lending risks and dissolved in 1998 the general provision formed in the preceding year pursuant to Section 57(1) Austrian Banking Act.

The **results of ordinary activities**, also taking into account the valuation results and realised sales profits and losses in case of **participating interests and shares in affiliated undertakings as well as securities held either in the investment portfolio or in the portfolio available for sale**, increased by about 34% to ATS 1.9 billion with Erste Bank, and by about 36% to ATS 2.6 billion with Erste Bank Group, as opposed to last year's figures, less extraordinary bad debt provisioning.

Erste Bank's 1998 **net income for the year before changes in reserves**, after **extraordinary results**, which in 1998 virtually contains only the pro rata amortisation of unrecognised pension liability and of deferrals for short cover resulting from the transfer of pension rights to the pension fund, and after **taxes** amounted to ATS 1.7 billion, which is an increase of 31.7% as opposed to the preceding year; at ATS 2.2 billion, the **consolidated net income for the year** was 33.7% higher than last year's figures adjusted by extraordinary measures.

Erste Bank has thereby made one major step towards its strategic goal, which is to achieve on group level a **Return on Equity (RoE)** of at least 12% until the year 2000.

### Positive Development of Balance Sheet Structure

In 1998, Erste Bank's **balance sheet total** increased by 4.1% to ATS 600.4 billion; the balance sheet total of Erste Bank Group increased by 4.0% to ATS 715.4 billion.

**On the assets side**, this increase was mainly due to a satisfactory increase of **loans and advances to customers**, an above-average increase of the **interest-bearing securities** portfolio and the rise in **loans and advances to credit institutions**, which, however, must be seen – at least in part – in connection with the decrease of **balances with the Central Banks** relating to the reporting date in the course of the maintenance of minimum reserves for the savings bank sector.

**The liabilities side** was mainly dominated by refinancing through **bank deposits**, and despite the difficult market situation due to the low interest rate level, there has also been an increase of **customer deposits**. To strengthen own funds (qualifying capital), **subordinated liabilities**, were built up accordingly.

The **endowment of own funds** of Erste Bank and of Erste Bank Group is very satisfactory.

Erste Bank's **totally qualified own funds** as defined by the Austrian Banking Act, which as of 1998 pursuant to the legal provisions comprise also short-term subordinated capital to cover the requirements of the trading book pursuant to Section 22 b Banking Act and the open currency positions, amounted to ATS 44.4 billion as of 31st December, 1998, as opposed to a statutory minimum requirement of ATS 26.5 billion, with a cover ratio working out at about 167%. The respective actual figures of Erste Bank Group were ATS 43.7 billion, as opposed to a minimum requirement of ATS 32.1 billion, resulting in a cover ratio of about 136%.

## Combined 1998 Status Report of Erste Bank and Erste Bank Group continued

At the end of 1998, the **core capital ratio** of Erste Bank as defined by the Austrian Banking Act was 7.9% (as opposed to 8.1% in the preceding year), that of Erste Bank Group was 6.1%, analogous to the preceding year. The total **equity ratio** of Erste Bank was 13.8% (14.1% in the preceding year) and 11.0% (11.1% in the preceding year) of Erste Bank Group.

### 1999 Forecast and Most Recent Developments

Erste Bank Group will continue to pursue its **clear objectives** also in 1999 and will increase its efforts to implement its **profit enhancement programme** to increase its **Return on Equity (RoE)** to at least 12% in the year 2000.

In addition to the measures already initiated to increase earnings, 1999 will focus on reducing **costs**. To attain this objective, a major project to reduce costs, comprising both Erste Bank and its major subsidiaries, was launched at the beginning of 1999. This project is aimed at reducing operating expenses by ATS 1 billion within the group during the next two years.

In the first months of 1999, major steps were successfully taken to adjust and realign the **savings bank sector**. In this context, Erste Bank intends to transfer in several Austrian States outside of Vienna and Lower Austria its branches to the respective State Capital Savings Banks against grant of shareholdings or sale; cooperation agreements shall help to achieve a more efficient cooperation in the savings bank sector. In February 1999, **tier 1 capital** (preference shares) of EUR 100 million was issued via an affiliated company, considerably strengthening the core capital endowment of Erste Bank Group. On account of the assessment basis as of 31st December, 1998, the effects on the core capital ratio of the banking group works out at 0.4 percentage points.

Aside from a moderate balance sheet growth of about 4%, Erste Bank Group expects for **1999** a demonstrable further improvement of the consolidated results; in addition to the consequences triggered by the cost reduction project, it is assumed that net interest income development will stabilise and net commission income will increase above average.

It is planned to apply **International Accounting Standards (IAS)** at the end of 1999 for purposes of group accounting.

*Vienna, 6th April, 1999*

### The Managing Board

Andreas Treichl  
*Chairman*

Elisabeth Bleyleben-Koren  
*Member*

Reinhard Ortner  
*Member*

Franz Hochstrasser  
*Member*

Peter Ostermann  
*Member*

# Combined notes to the 1998 Financial Statements of Erste Bank and Erste Bank Group

## I. General

The 1998 Financial Statements of Erste Bank der oesterreichischen Sparkassen AG (Erste Bank) and its 1998 Consolidated Financial Statements (Erste Bank Group) were prepared in accordance with the provisions of the Austrian Commercial Code and in consideration of the relevant provisions of the Austrian Banking Act. The notes were prepared in combined form pursuant to Section 251 (3) Austrian Commercial Code.

In the reporting year, seven subsidiaries were merged with Erste Bank. Johannes Schwarz GmbH, Vienna, Die Erste Invest-Consult GmbH, Vienna (EIC), Die Erste Finanzberatung GmbH, Vienna (EFB), Die Erste Holding GmbH, Vienna, Die Erste EDV-Dienstleistungsgesellschaft mbH, Vienna (EDG) and Sparkasse Mistelbach AG, Mistelbach, were merged retroactively as of 1st January, 1998. Die Erste Beteiligungsverwaltung GmbH, Vienna, was merged as of 31st March, 1998.

## II. Accounting Principles and Valuation Methods

- 1) The Financial Statements and the Consolidated Financial Statements were prepared in accordance with **accounting principles generally accepted in Austria**, which require a true and fair presentation of assets, liabilities, financial position and earnings of the company (the Group). The principle of individual valuation of assets and liabilities and the going concern principle were observed. In the Consolidated Financial Statements the valuation principles of the parent company were applied. The principle of prudence was observed in that the special characteristics of the banking business were taken into account.
- 2) **Foreign currency assets and liabilities** were valued at the customary mean rate of exchange at the balance sheet date. Officially listed currencies were valued at the mean currency rate, other currencies were valued at the buying rate at the balance sheet date. The effects on operating results from the conversion of the Euro with the MUM-factors as of 31st December, 1998 were accounted for in the profit and loss account.
- 3) **Participating interests and shares in affiliated undertakings** were recorded at cost unless they were recorded in the Consolidated Financial Statements at equity. To the extent permanent impairments because of sustained losses were incurred, adjustments to fair value were made. Where necessary, adequate provisions were made to cover losses incurred by subsidiaries.
- 4) In the case of **debt securities and other fixed-income securities held as fixed assets, premiums and discounts** were amortised on a pro rata basis, in accordance with Section 56 (2) and (3) of the Banking Act. **Securities within the trading portfolio** were marked to market, other securities available for sale were valued according to Section 207 of the Commercial Code in connection with Section 56 (5) Banking Act.
- 5) **Loans and advances to credit institutions and customers, bills of exchange and other assets**, were valued in accordance with Section 207 of the Austrian Commercial Code. Valuation adjustments were recorded for identifiable risks. Reversals of value adjustments were recognised as income. The valuation of claims pursuant to Section 57 (1) Banking Act in the amount of ATS 1,000.0 million made in 1997 was – in the reporting year – allocated to individual lending risks therefore reversed.

Loans to individuals were valued on the basis of statistical risk features. Receivables due from debtors in risk countries were valued prudently in accordance with an opinion of the Special Council for Commercial Law and Auditing of the Austrian Chamber of Chartered Accountants.
- 6) In the Consolidated Financial Statements, **leased assets** were allocated to the individual receivable categories at the net present value of leasing receivables according to Section 59 (6) of the Austrian Banking Act. The difference between the net present value compared to book value of the assets was included in the retained earnings.
- 7) **Intangible and tangible fixed assets** were valued at cost, net of accumulated depreciation and amortisation, which are calculated on a straight line basis. The depreciation periods range from 25 to 50 years for buildings, from 5 to 20 years for business and office equipment and from 4 to 15 years for intangible fixed assets. Low value supplies were fully depreciated in the year of acquisition. The depreciation period for goodwill from the mergers with several savings banks is 15 years.
- 8) **Debts evidenced by certificates and subordinated liabilities** were accounted for at their redemption values or at present values (zero coupon bonds), as applicable.
- 9) **Issue costs and discounts for issues** were capitalised until 31st December, 1997 and amortised on a straight line basis until maturity, considering changes in the outstanding capital. From the reporting year on, costs accrued were immediately charged to expenses.

10) **Provisions** were formed to the extent commercially reasonably necessary. **Provisions for pensions** of retired employees were determined actuarially, utilising the entry age method, a discount rate of 6%, and the mortality tables of Etti-Pagler. The calculations were performed in accordance with the expert opinion FG KFS/RL3 of the Special Council for Commercial Law and Auditing of the Austrian Chamber of Chartered Accountants. The transitional provisions of Article X (3) of the Financial Reporting Act were used. The accrued pension rights of employees of Erste Bank AG and of Salzburger Sparkasse Bank AG as of 1st January, 1999 who are entitled to pensions were transferred to BVP-Pensionskassen AG in 1998. The difference resulting from the transfer of the cover funds to the pension fund and the provisions for pensions for these was shown under the prepaid expenses pursuant to the transitional provisions, part XII, of the Austrian Pension Fund Act and will be released over a period of ten years.

Provisions for **severance payments** were determined actuarially, utilising the entry age method, the mortality tables of Etti-Pagler, and a discount rate of 6%. This meets the requirement of Section 211 (2) Austrian Commercial Code.

The **provision for anniversary payments** was calculated similarly to the provision for severance payments.

11) **Assets held in trust** which can be excluded from the estate in case of a court-ordered liquidation of the credit institution were shown off the balance sheet pursuant to Section 48 (1) Austrian Banking Act.

12) **Derivatives** were valued according to the following valuation principles: Hedging products were valued the same way as the corresponding underlying (i.e. marked to market or accounted for by the deferral method without a valuation taking place). The trading portfolio was marked to market. Other products of the trading book (in particular strategic swaps) were accounted for by the deferral method.

### III. Principles of Consolidation

1) The **scope of consolidation** includes the Group of credit institutions as defined in Section 59 in combination with Section 30 Austrian Banking Act. Accordingly, Austrian and foreign credit institutions controlled by the parent bank, financial institutions and undertakings whose activities are a direct extension of banking or related services ancillary to banking have been included. Important undertakings which do not form a part of the Group of credit institutions since they operate outside the banking sector and/or are subject to a considerable but not a controlling interest of Erste Bank, were accounted for at equity.

In the reporting year, 19 companies were added to and 11 companies were eliminated from the scope of full consolidation and 10 subsidiaries were merged. The date applied to the consolidation of capital pursuant to section 254 (2) of the Austrian Commercial Code was the date of first-time inclusion of the subsidiary in the Consolidated Financial Statements. For undertakings valued according to the equity method, the date applied to the consolidation was the date at which the undertaking became an associated undertaking.

2) The **options** defined in Section 249 (2) of the Austrian Commercial Code (waiver of inclusion in the scope of full consolidation) and in Section 263 (2) of the Austrian Commercial Code (waiver because of minor importance) have been used, since certain undertakings – separately and aggregated – were of minor importance for the entire Group.

3) **Capital consolidation** was in principle performed according to the book value method, except for Salzburger Sparkasse Bank AG where fair values were used. Liability reserves and untaxed reserves were allocated to the profit reserves in the Consolidated Financial Statements, after deduction of deferred taxation.

4) Goodwill arising from **full and proportionate consolidation**, net of negative goodwill, was, at first time consolidation, set off against profit reserves pursuant to Section 261 (1), second sentence of the Austrian Commercial Code.

- 5) Claims and liabilities of subsidiary undertakings included in the scope of full and proportionate consolidation vis-à-vis Erste Bank as parent, and vice versa, and claims and liabilities between such undertakings were eliminated in the process of **debt consolidation**. The **profit and loss account** was adjusted for intra-group revenues. Within the scope of consolidation no material intercompany profits existed.
- 6) **Deferred taxation** necessary pursuant to Section 258 of the Austrian Commercial Code was taken into account.
- 7) Valuation according to the **equity method** was performed pursuant to Section 264 (6) of the Austrian Commercial Code on the basis of the most recent audited Financial Statements available according to the book value method. Adjustments due to different accounting principles pursuant to Section 264 (5) of the Austrian Commercial Code were not made, since no significant differences between the valuation methods applied were found.
- 8) **A change of the consolidation method** occurred with respect to certain included undertakings because of the change in scope of consolidation.
- 9) The **foreign currency translation** was done at the mean rate of exchange at the balance sheet date.

## Combined notes to the 1998 Financial Statements of Erste Bank and Erste Bank Group continued

### IV. Balance Sheet and Consolidated Balance Sheet Details

#### 1) Breakdown of remaining maturities of receivables and credit balances not repayable on demand and of amounts owed to credit institutions and customers not repayable on demand:

a) Receivables and credit balances not repayable on demand (in ATS Million)	Erste Bank		Erste Bank Group	
	31/12/1997	31/12/1998	31/12/1997	31/12/1998
<i>Loans and advances to credit institutions</i>				
up to 3 months	88,935	<b>96,415</b>	86,204	<b>98,891</b>
from 3 months to 1 year	48,382	<b>46,014</b>	47,276	<b>43,912</b>
from 1 to 5 years	19,287	<b>19,852</b>	18,444	<b>18,362</b>
over 5 years	5,253	<b>9,689</b>	5,488	<b>9,524</b>
<i>Loans and advances to customers</i>				
up to 3 months	35,255	<b>43,404</b>	38,455	<b>46,452</b>
from 3 months to 1 year	50,032	<b>46,842</b>	55,423	<b>52,128</b>
from 1 to 5 years	60,876	<b>60,595</b>	82,958	<b>79,863</b>
over 5 years	97,176	<b>98,429</b>	160,671	<b>165,271</b>
b) Amounts owed not repayable on demand (in ATS Million)				
	31/12/1997	31/12/1998	31/12/1997	31/12/1998
<i>Amounts owed to credit institutions</i>				
up to 3 months	175,242	<b>173,028</b>	179,104	<b>185,534</b>
from 3 months to 1 year	56,626	<b>43,323</b>	55,626	<b>42,937</b>
from 1 to 5 years	11,925	<b>12,563</b>	11,845	<b>10,657</b>
over 5 years	8,863	<b>9,348</b>	11,857	<b>13,996</b>
<i>Amounts owed to customers</i>				
<i>savings deposits</i>				
up to 3 months	1,465	<b>3,966</b>	2,401	<b>5,902</b>
from 3 months to 1 year	9,934	<b>17,057</b>	14,878	<b>19,810</b>
from 1 to 5 years	15,499	<b>23,283</b>	22,984	<b>30,153</b>
over 5 years	69,547	<b>51,103</b>	132,821	<b>112,552</b>
<i>Other debts</i>				
up to 3 months	26,071	<b>23,148</b>	29,929	<b>25,910</b>
from 3 months to 1 year	3,365	<b>2,127</b>	5,912	<b>5,519</b>
from 1 to 5 years	798	<b>532</b>	1,754	<b>713</b>
over 5 years	823	<b>748</b>	2,358	<b>2,801</b>
<i>Debts evidenced by certificates</i>				
up to 3 months	4,839	<b>3,463</b>	5,615	<b>6,292</b>
from 3 months to 1 year	6,082	<b>7,268</b>	7,138	<b>8,111</b>
from 1 to 5 years	28,565	<b>26,749</b>	31,749	<b>20,274</b>
over 5 years	25,919	<b>31,090</b>	28,891	<b>34,793</b>

As regards savings deposits, remaining maturity was estimated on the basis of their average terms.

2) **Debt securities issued maturing within one year**

The total of debt securities and other fixed-income securities maturing within one year after the balance sheet date amounted for Erste Bank as of 31st December, 1998 to ATS 5,205.9 million (previous year: ATS 4,615.8 million), for Erste Bank Group amounted to ATS 5,230.3 million (previous year: ATS 5,112.6 million).

In the case of debts evidenced by certificates, the respective maturities for Erste Bank as at 31st December, 1998 amounted to ATS 10,006.0 million (previous year: ATS 8,523.4 million) and for Erste Bank Group to ATS 10,167.5 million (previous year: ATS 8,691.0 million).

3) **Assets and liabilities in foreign currencies (in ATS million):**

	Assets		Liabilities	
	31/12/1997	31/12/1998	31/12/1997	31/12/1998
Erste Bank	218,306	250,032	216,238	237,351
Erste Bank Group	242,776	267,615	237,710	251,156

4) **Loans and advances to and amounts owed to affiliated companies and companies in which the bank holds a participating interest**

The following items include loans and advances to and amounts owed to affiliated companies and companies in which **Erste Bank** holds a participating interest (in ATS million):

	Loans and advances to affiliated companies		Loans and advances to companies in which the Bank holds a participating interest	
	31/12/1997	31/12/1998	31/12/1997	31/12/1998
Loans and advances to credit institutions	8,541	15,228	9,418	7,425
Loans and advances to customers	17,072	15,642	13,271	6,578
Debt securities and other fixed-income securities	0	0	628	100

	Amounts owed to affiliated companies		Amounts owed to companies in which the Bank holds a participating interest	
	31/12/1997	31/12/1998	31/12/1997	31/12/1998
Amounts owed to credit institutions	12,389	13,715	24,195	21,028
Amounts owed to customers	2,056	1,695	3,038	2,368

The most important companies involved are:

Loans and advances to affiliated companies:

First Austrian International Limited, London  
 EBV-Leasing GesmbH & Co KG, Vienna  
 Salzburger Sparkasse Bank AG, Salzburg  
 Bausparkasse der österreichischen Sparkassen AG, Vienna

Loans and advances to companies in which the bank holds a participating interest:

Oesterreichische Kontrollbank AG, Vienna  
 MAZDA Austria GesmbH, Klagenfurt  
 Sparkasse Bregenz Bank AG, Bregenz  
 Sparkasse Mühlviertel West Bank AG, Rohrbach

Amounts owed to affiliated companies:

Salzburger Sparkasse Bank AG, Salzburg  
 Erste Sparinvest KapitalanlagegesmbH, Vienna  
 Bausparkasse der österreichischen Sparkassen AG, Vienna  
 Immorent AG, Vienna

Amounts owed to companies in which the bank holds a participating interest:

Oesterreichische Kontrollbank AG, Vienna  
 Sparkasse Bregenz Bank AG, Bregenz  
 Die Erste Immobilien AG, Vienna

## Combined notes to the 1998 Financial Statements of Erste Bank and Erste Bank Group continued

The following items include loans and advances to and amounts owed to affiliated companies and companies in which **Erste Bank Group** holds a participating interest (in ATS million):

	Loans and advances to affiliated companies		Loans and advances to companies in which Erste Bank Group holds a participating interest	
	31/12/1997	31/12/1998	31/12/1997	31/12/1998
Loans and advances to credit institutions	0	0	9,490	10,027
Loans and advances to customers	6,642	3,454	13,382	7,506
Debt securities and other fixed-income securities	0	57	628	41

	Amounts owed to affiliated companies		Amounts owed to companies in which Erste Group holds a participating interest	
	31/12/1997	31/12/1998	31/12/1997	31/12/1998
Amounts owed to credit institutions	0	0	24,650	23,425
Amounts owed to customers	938	1,038	3,174	2,661

### 5) Subordinated assets (in ATS million)

	Erste Bank		Erste Bank Group	
	31/12/1997	31/12/1998	31/12/1997	31/12/1998
a) Loans and advances to credit institutions	110	320	16	55
of which:				
affiliated companies	105	315	0	0
companies in which the bank holds a participating interest	5	5	5	55
b) Loans and advances to customers	2,226	3,806	305	2,829
of which:				
affiliated companies	1,663	1,394	120	339
companies in which the bank holds a participating interest	179	150	185	228
c) Debt securities and other fixed-income securities of which:				
affiliated companies	89	659	189	664
companies in which the bank holds a participating interest	0	0	0	0
	0	100	189	105

### 6) Fiduciary Operations

The following items include fiduciary operations in the following amounts:

Loans and advances to credit institutions: ATS 314.3 million;

Loans and advances to customers: ATS 672.1 million;

Participating interests: ATS 323.1 million;

Participating interests in affiliated companies: ATS 0.9 million;

amounts owed to credit institutions: ATS 953.3 million;

On the balance sheet date as of 31st December 1997 these items did not contain fiduciary operations.



7) **Participating interests**

A schedule detailing the important participating interests is shown separately in an appendix to the notes to the accounts.

8) **Securities**

a) *Breakdown of securities qualified for listing (in ATS million)  
(pursuant to Section 64 (1) lit. 10  
of the Austrian Banking Act)*

Erste Bank	31/12/1997	Listed		Unlisted	
		31/12/1997	31/12/1998	31/12/1997	31/12/1998
a) Debt securities and other fixed-income securities	27,163	35,654	995	279	
b) Shares and other variable-yield securities	3,607	1,873	161	915	
c) Participating interests	1,085	1,615	0	42	
d) Shares in affiliated companies	0	0	0	0	
<b>Total</b>	<b>31,855</b>	<b>39,142</b>	<b>1,156</b>	<b>1,236</b>	

Erste Bank Group	31/12/1997	Listed		Unlisted	
		31/12/1997	31/12/1998	31/12/1997	31/12/1998
a) Debt securities and other fixed-income securities	31,611	42,847	5,018	1,849	
b) Shares and other variable-yield securities	4,682	4,953	384	1,165	
c) Participating interests	1,085	1,615	1,095	231	
d) Shares in affiliated companies	0	0	0	104	
<b>Total</b>	<b>37,378</b>	<b>49,415</b>	<b>6,497</b>	<b>3,349</b>	

*(pursuant to Section 64 (1) lit. 11 of the Austrian Banking Act)*

Erste Bank	31/12/1997	Fixed assets		Current assets incl. trading portfolio	
		31/12/1997	31/12/1998	31/12/1997	31/12/1998
a) Debt securities and other fixed-income securities	13,987	28,074	14,171	7,859	
b) Shares and other variable-yield securities	130	0	3,638	2,788	
<b>Total</b>	<b>14,117</b>	<b>28,074</b>	<b>17,809</b>	<b>10,647</b>	

Erste Bank Group	31/12/1997	Fixed assets		Current assets incl. trading portfolio	
		31/12/1997	31/12/1998	31/12/1997	31/12/1998
a) Debt securities and other fixed-income securities	17,482	28,765	19,146	15,931	
b) Shares and other variable-yield securities	3,050	3,003	2,016	2,865	
<b>Total</b>	<b>20,532</b>	<b>31,768</b>	<b>21,162</b>	<b>18,796</b>	

The classification pursuant to Section 64 (1) lit. 11 of the Austrian Banking Act is based on organisational guidelines issued by the Managing Board, where fixed assets include positions held under strategic aspects of long-term return on investment.

The non-amortised portion of discounts and premiums pursuant to Section 56 (2) of the Austrian Banking Act amounts to ATS 1,199.3 million in Erste Bank (1997: ATS 1,020.4 million) and ATS 1,218.9 million in Erste Bank Group (1997: ATS 1,037.3 million). The non-amortised portion of discounts and premiums pursuant to Section 56 (3) of the Austrian Banking Act amounts to ATS 54.9 million in Erste Bank (1997: ATS 90.9 million) and ATS 60.9 million in Erste Bank Group (1997: ATS 163.4 million). Non effected additions in the financial year amount to ATS 8.7 million in Erste Bank (1997: ATS 15.6 million) and in Erste Bank Group ATS 10.2 million (1997: ATS 37.4 million).

## Combined notes to the 1998 Financial Statements of Erste Bank and Erste Bank Group continued

b) Breakdown of certain value differences of listed securities, which are not accounted for as financial fixed assets (in ATS million):

Erste Bank	Erste Bank		Erste Bank Group	
	31/12/1997	31/12/1998	31/12/1997	31/12/1998
a) Difference between fair values and recorded cost pursuant to Section 56 (4) Austrian Banking Act	200	594	284	743
b) Difference between fair values and recorded cost pursuant to Section 56 (5) Austrian Banking Act	85	144	170	222

### 9) Trading Book

Erste Bank has been keeping a trading book pursuant to Section 22 (b) of the Austrian Banking Act during the financial year. The securities portfolio allocated to the trading book (including pension transactions and OTC-premiums) amounted to ATS 15,735.2 million as of 31st December, 1998. The volume of other financial instruments in Erste Bank shown in the trading book had a nominal value of ATS 1,091,326.9 million as of 31st December, 1998.

(in ATS million)	purchase	sell	total
Options	38,311.3	51,074.4	89,385.7
Caps and Floors	35,953.2	40,007.7	75,960.9
Currency swaps	114,812.7	0.0	114,812.7
Interest rate swaps	655,324.6	0.0	655,324.6
Forward Rate Agreements	57,707.4	88,611.9	146,319.3
Financial Futures	3,035.7	6,488.0	9,523.7
<b>Total</b>			<b>1,091,326.9</b>

Note: Interest and currency swaps are shown unilaterally (call only), all other products bilaterally.

### 10) Fixed assets

Details relating to the changes in fixed assets (fixed assets schedule), pursuant to Section 226 (1) of the Austrian Commercial Code, are reported separately as appendix to the notes to the accounts.

The carrying value of built-on land on 31st December, 1998 amounted to ATS 284.8 million (31st December, 1997: ATS 254.0 million) in Erste Bank and ATS 2,447.3 million in Erste Bank Group (31st December, 1997: ATS 2,034.3 million).

The carrying value of assets leased to customers was fully depreciated in Erste Bank on 31st December 1998 (31st December, 1997: book value ATS 0.4 million) in Erste Bank and amounted (on net present value basis) to ATS 19,344.8 million (31st December, 1997: ATS 18,942.4 million) in Erste Bank Group.

Erste Bank has commitments from the use of tangible fixed assets not reported in the balance sheet (rent and lease agreements) for the following financial year amounting to ATS 790.8 million (previous year: ATS 700.0 million) and for the following five financial years amounting to ATS 4,198.8 million (previous year: ATS 3,714.2 million).

Erste Bank Group has such commitments for the following financial year amounting to ATS 862.5 million (previous year: ATS 771.9 million) and for the following five financial years amounting to ATS 4,538.9 million (previous year: ATS 4,071.5 million).

Intangible fixed assets in Erste Bank included assets in the amount of ATS 197.2 million which were acquired from affiliated companies. In the reporting year, such assets were acquired in the amount of ATS 144.6 million (in Erste Bank Group in the amount of ATS 203.2 million),

### 11) Prepaid expenses/income

As of 31st December, 1998, the prepaid expenses show in Erste Bank with an amount of ATS 701.8 million, and in Erste Bank Group with an amount of ATS 723.2 million the difference between cover requirements of the pension fund and the provisions for pensions before the 1998 transfer of pension rights of actives from Erste Bank and additionally from Salzburger Sparkasse Bank AG within the Group, respectively. This amount will be released with impact on expenses from the reporting year on in ten equal yearly installments. The spin-off of the pension obligation is described in item II.10 of these notes.

12) Other assets (in ATS million)	Erste Bank		Erste Bank Group	
	31/12/1997	31/12/1998	31/12/1997	31/12/1998
Total:	17,436	<b>13,892</b>	18,949	<b>16,380</b>
hereof from securities transactions	2,539	<b>884</b>	2,612	<b>970</b>
hereof from derivative products	2,743	<b>737</b>	3,875	<b>1,377</b>
hereof from accrued interest and commission income	7,854	<b>8,891</b>	8,509	<b>9,343</b>
hereof from dividend claims and proceeds from the sale of participating interests	1,235	<b>1,396</b>	96	<b>7</b>

13) Other Liabilities (in ATS million)	Erste Bank		Erste Bank Group	
	31/12/1997	31/12/1998	31/12/1997	31/12/1998
Total:	15,643	<b>12,743</b>	18,352	<b>15,683</b>
hereof from the securities business	4,465	<b>940</b>	5,355	<b>1,165</b>
hereof from accrued interest and commission expenses	6,272	<b>6,610</b>	8,632	<b>7,009</b>
hereof from ongoing payment transactions	1,822	<b>1,438</b>	2,463	<b>1,843</b>

14) Provisions for liabilities and charges (in ATS million)	Erste Bank		Erste Bank Group	
	31/12/1997	31/12/1998	31/12/1997	31/12/1998
Provisions for severance payments	1,065	<b>1,056</b>	1,396	<b>1,448</b>
Provisions for pensions	4,633	<b>3,168</b>	6,102	<b>4,437</b>
Tax provisions	223	<b>231</b>	441	<b>365</b>
Provisions for country risks and other risks	1,674	<b>2,174</b>	2,137	<b>2,810</b>
Other	736	<b>1,006</b>	1,669	<b>2,019</b>
<b>Total</b>	<b>8,331</b>	<b>7,635</b>	<b>11,745</b>	<b>11,079</b>

The **unrecognised pension liability** of Erste Bank pursuant to Article X (3) of the Financial Reporting Act amounts to ATS 872.5 million as of 31st December, 1998 (31st December, 1997: ATS 1,307.6 million), in Erste Bank Group this liability amounts to ATS 900.2 million at the end of 1998 (31st December, 1997: ATS 1,342.4 million) and is disclosed as off-balance sheet item. In accordance with the transitional provisions of the Financial Reporting Act, it will be amortized over a remaining period of 13 years at a maximum.

The decrease of the pension provision as compared to the previous year results in Erste Bank with an amount of ATS 1,490.9 million from the outsourcing of the pension obligations vis-à-vis actives to BVP-Pensionskassen AG described in item II 10 of these notes. The provision further decreased by ATS 58.5 million because of use and by ATS 16.0 million because of writing back as income in 1998. On the other hand, from additions from mergers and the annual amortization of the unrecognized pension liability pursuant to Article X (3) of the Financial Reporting Act results an increase of the provision by ATS 32.9 million and ATS 67.1 million. The decrease in Erste Bank Group is based on the same circumstances with addition of the corresponding amounts of the subsidiaries.

#### 15) Subordinated Liabilities

Of the individual subordinated debts issued by Erste Bank (including supplementary capital) during the financial year the book value of one issue exceeds the 10%-limit of the total amount of outstanding subordinated liabilities. This is the ATS-issue 1998-2013/3/P of Erste Bank with a nominal and book value of ATS 3,000.0 million, and bearing interest at 4.97%. The book value of the second subordinated debt issued during the financial year amounts to ATS 1,700.0 million. This is an ATS-Erste Bank debt security having a maturity until 2010 and bearing interest at 5.25%. Further changes of the book value as compared to the previous year result on the one hand from issues with a book value of ATS 1,987.3 million maturing in the financial year and decreases of the book value due to the market value fluctuations in the amount of ATS 213.8 million. On the balance sheet date unlisted own issues of subordinated debts in the amount of ATS 6.8 million were held in own portfolio.

In Erste Bank Group, the book values of the individual subordinated debt issued are lower than 10% of the total amount of outstanding subordinated liabilities.

Interest expenses incurred for subordinated liabilities and supplementary capital reached ATS 1,351.5 million in 1998 (1997: ATS 1,245.3 million) in Erste Bank, and ATS 1,454.5 million in 1998 (1997: ATS 1,360.7 million) in Erste Bank Group.

Subordination is defined in accordance with Section 45 (4) and Section 51 (9) of the Austrian Banking Act.

16) **Subscribed Capital**

The **Subscribed Capital** (including the participation capital) as of 31st December, 1998 – as in the previous year – consists of (in ATS million)

44,360,799 bearer shares with voting rights (nominal value ATS 100.—)	4,436.1
5,000 participation certificates (nominal value ATS 1,000.—)	5.0
<b>Total amount of Subscribed Capital</b>	<b>4,441.1</b>

The extraordinary shareholders' meeting on 21st August, 1997 approved an authorised share capital of ATS 1,200.0 million for a period of 5 years from the date of registration of the company in the Companies Register.

In accordance with this approval, the supervisory board in the meeting of 29th October, 1997 resolved to increase the share capital by ATS 295.7 million through the issue of bearer shares with voting rights attached, so that the unused authorised capital amounts to ATS 904.3 million as of 31st December, 1998.

The extraordinary shareholders' meeting on 21st August, 1997 furthermore approved a conditional increase of the share capital in the amount of ATS 600.0 million for the case that convertible bond holders would make use of their conversion right. Furthermore, authorisation was given to issue participation capital up to a nominal amount of ATS 1,000.0 million for a period of 5 years from the date of registration of the company in the Companies Register.

 17) **Reserves**
**Erste Bank**

 a) *Changes of Capital Reserves*

The capital reserves remained unchanged in the financial year.

 b) *Changes of the Profit Reserves*

In the financial year 1998 the profit reserves were increased by ATS 1,582.7 million. The increase is due to the following: The transfer without impact on the profit and loss account of the valuation reserve of ATS 943.8 million for Erste-Holding to free reserves due to the merger with Erste Bank, the settlement without impact on the profit and loss account of the negative balance of merger-related profits and losses of ATS 78.5 million and the allocation to free reserves of an amount of ATS 689.4 million and to the reserve for own shares of ATS 28.0 million.

 c) *Changes of the Liability Reserve pursuant to Section 23(6) of the Banking Act*

The risk weighted assets and off-balance sheet items pursuant to Section 22 Austrian Banking Act as basis for the determination of the liability reserve amounts on the balance sheet date to ATS 296,337.0 million. Therefrom results a dotation requirement for the current financial year of ATS 280.0 million. Furthermore, the liability reserve was increased by a take over without impact on the profit and loss account of liability reserves by mergers in the amount of ATS 24.3 million. The liability reserve as of 31st December, 1998 of ATS 7,414.5 million pursuant to Section 23 (6) Austrian Banking Act complies with the legal requirement to amount to 2.5% of the risk weighted basis.

 d) *Changes of the Untaxed Reserves (in ATS million)*

	31/12/97	Merger related changes (including spin-offs)	Allocation	Release	Transfer	31/12/98
Reserve pursuant to						
– Section 12 Income Tax Act (already transferred)	1,409	7	69	– 70	– 944	471
– Sections 8 and 122 Income Tax Act 1972	0	1	0	0	0	1
	1,409	8	69	– 70	– 944	472
Investment allowance pursuant to Section 10 Income Tax Act 1988						
1994	92	– 17	0	– 75	0	0
1995	52	– 6	0	0	0	46
1996	46	11	0	– 2	0	54
1997	39	17	0	– 1	0	55
1998	0	0	62	0	0	62
	229	5	62	– 78	0	217
Rent reserve pursuant to Section 11 Income Tax Act 1988	22	0	0	0	0	22
<b>Total</b>	<b>1,660</b>	<b>13</b>	<b>131</b>	<b>– 148</b>	<b>– 944</b>	<b>711</b>

The merger-related increases in untaxed reserves by ATS 13 million result with ATS 8 million from the valuation reserve because of special depreciation and in the amount of ATS 5 million from investment allowances pursuant to Section 10, Income Tax Act 1988, whereas additions in the amount of ATS 39 million are matched by disposals of ATS 34 million in connection with the spin-off of Rechenzentrum Erste Bank into IT-Austria GmbH, Vienna.

Furthermore 1998, a transfer without impact on the profit and loss account of ATS 944 million to the unrestricted profit reserves occurred in the course of the mergers.

The release of ATS 148 million and the allocation of ATS 131 million each occurred to the respective items in the profit and loss account.

#### Erste Bank Group

In the process of first time inclusion of fully consolidated undertakings, net differences and goodwill of ATS 253.1 million were set-off against bad will of ATS 46.6 million and the remaining balance was set-off against profit reserves. In the process of first time inclusion of associated undertakings, net differences of ATS 22.6 million were set-off against deficits of ATS 17.6 million and classified as profit reserves.

#### 18) Own supplementary certificates

At the 1998 balance sheet date, the Erste Bank held own supplementary capital at a carrying value of ATS 230.9 million (31st December, 1997: ATS 128.0 million). At that date, Erste Bank Group held (including the capital held by Erste Bank) ATS 288.6 million (previous year: ATS 147.5 million).

#### 19) Own shares

##### Own participation certificates:

Held by	Erste Bank and Erste Bank Group Units	Par value in ATS
1st January, 1998	461	461,000
Total additions	296	296,000
Total disposals	0	0
31st December, 1998	757	757,000
Maximum of own participation capital held	757	757,000

##### Own shares:

Held by	Erste Bank and Erste Bank Group Units	Par value in ATS
1st January, 1998	0	0
Total additions	3,789,402	378,940,200
Total disposals	3,762,100	376,210,000
31st December, 1998	27,302	2,730,200
Maximum of own participation capital held	516,962	51,696,200

All acquisitions and sales were effected in the ordinary course of business with the general approval of the general shareholders' meeting.

Combined notes to the 1998 Financial Statements of Erste Bank and Erste Bank Group continued

20) Own Funds

Erste Bank pursuant to Section 23 Austrian Banking Act (in ATS million):

a) Risk weighted basis pursuant to Section 22 Austrian Banking Act:

Risk category (capital underlying)	31/12/1997	31/12/1997	31/12/1998	31/12/1998
	nomin. Gross Assets	risk weighted assets according to Banking Act	nomin. Gross Assets	risk weighted assets according to Banking Act
0%	169,437	0	162,488	0
10%	2,121	212	3,688	369
20%	162,142	32,428	159,999	32,000
50%	44,668	22,334	42,233	21,116
100%	195,004	195,004	214,783	214,783
Investment certificates	3,300	534	3,902	813
On-Balance sheet total	576,672	250,512	587,093	269,081
Off-balance sheet transactions (in particular guarantees and assets pledged)		27,187		25,114
Special off-balance sheet financial transactions		4,186		2,142
Volume allocated to the trading			13,356	-
<b>Total</b>	<b>576,672</b>	<b>281,885</b>	<b>600,449</b>	<b>296,337</b>

b) Required own funds pursuant to Section 22 (1) Austrian Banking Act (in ATS million):

	31/12/1998
8% of the weighted asset, balance sheet and special off-balance sheet financial transactions	23,707
Own funds requirement for open foreign exchange positions pursuant to Section 26 (1) Austrian Banking Act	172
Own funds requirement for the trading book pursuant to Section 22 b (1) Austrian Banking Act	2,631
<b>Total own funds required</b>	<b>26,510</b>

c) Own funds pursuant to Section 23 Austrian Banking Act (in ATS million):

	31/12/1997	31/12/1998
<i>Core Capital (Tier 1)</i>		
Paid-up capital	4,436	4,433
Disclosed reserves	18,910	19,824
Less intangible assets	- 511	- 982
<b>Total core capital</b>	<b>22,835</b>	<b>23,275</b>
<i>Qualifying supplementary capital (Tier 2)</i>		
Participation capital	5	4
Supplementary capital	5,315	5,873
Revaluation reserve	1,379	1,385
Subordinated capital	11,417	11,637
<b>Total supplementary capital</b>	<b>18,116</b>	<b>18,899</b>
<i>Qualifying short term subordinated capital (Tier3)</i>		
Transformation of previously qualifying supplementary capital	0	3,532
<b>Total core capital and supplementary capital</b>	<b>40,951</b>	<b>45,706</b>
Deductions pursuant to Section 23 (13) and Section 29 (1) and (2) Austrian Banking Act	- 1,114	- 1,356
<b>Qualifying capital (Tier 1 + 2 + 3)</b>	<b>39,837</b>	<b>44,350</b>
<b>Required Own funds</b>	<b>22,551</b>	<b>26,510</b>
<b>Own funds surplus</b>	<b>17,286</b>	<b>17,840</b>
<b>Cover ratio in %</b>	<b>176.7</b>	<b>167.3</b>
<b>Own funds surplus from Tier 1 + 2</b>	<b>17,286</b>	<b>17,111</b>
<b>Own funds surplus from Tier 3</b>	<b>-</b>	<b>729</b>
<b>Own funds ratio in %</b>	<b>14.13</b>	<b>13.77</b>
<b>Hereof Tier 1 ratio in %</b>	<b>8.10</b>	<b>7.85</b>

Erste Bank Group of credit institutions pursuant to Section 24 Austrian Banking Act (in ATS million)

a) Risk-weighted basis pursuant to Section 22 Austrian Banking Act:

Risk category (capital underlying)	31/12/1997	31/12/1997	31/12/1998	
	nomin. Gross Assets Aktiven	risk weighted assets according to Banking Act	nomin. Gross Assets	risk weighted assets according to Banking Act
0%	177,011	0	<b>165,880</b>	<b>0</b>
10%	3,198	320	<b>3,698</b>	<b>370</b>
20%	161,927	32,385	<b>170,018</b>	<b>34,004</b>
50%	114,215	57,108	<b>113,216</b>	<b>56,608</b>
100%	225,542	225,542	<b>241,556</b>	<b>241,556</b>
Investment certificates	5,690	847	<b>7,561</b>	<b>1,253</b>
On-balance sheet total	687,583	316,202	<b>701,929</b>	<b>333,791</b>
Off-balance sheet transactions (in particular guarantees and assets pledged)		32,561		<b>28,528</b>
Special off balance sheet financial transactions		5,982		<b>2,168</b>
Volume allocated to the trading book			<b>13,487</b>	<b>-</b>
<b>Total</b>	<b>687,583</b>	<b>354,745</b>	<b>715,416</b>	<b>364,487</b>

b) Required own funds pursuant to Section 22 (1) Austrian Banking Act (in ATS million):

	31/12/1998
8% of the weighted asset, balance sheet and special off-balance sheet financial transactions	<b>29,159</b>
Own funds requirement for open foreign exchange positions pursuant to Section 26 (1) Austrian Banking Act	<b>221</b>
Own funds requirement for the trading book pursuant to Section 22 b (1) Austrian Banking Act	<b>2,762</b>
<b>Total own funds required</b>	<b>32,142</b>

c) Own funds pursuant to Section 24 Austrian Banking Act:

	31/12/1997	31/12/1998
<i>Core Capital (Tier 1)</i>		
Paid up capital	4,436	<b>4,433</b>
Disclosed reserves	18,481	<b>19,702</b>
Less intangible assets	- 1,292	<b>- 1,966</b>
<b>Total core capital</b>	<b>21,625</b>	<b>22,169</b>
<i>Qualifying supplementary capital (Tier 2)</i>		
Participation capital	5	<b>4</b>
Supplementary capital	6,635	<b>6,866</b>
Revaluation reserve	1,379	<b>1,385</b>
Subordinated capital	10,812	<b>11,024</b>
<b>Total supplementary capital</b>	<b>18,831</b>	<b>19,279</b>
<i>Qualifying short term subordinated capital (Tier 3)</i>		
Transformation of previously qualifying supplementary capital	0	<b>3,531</b>
<b>Total core capital and supplementary capital</b>	<b>40,456</b>	<b>44,979</b>
Deductions pursuant to Section 23 (13) and Section 29 (1) and (2) Austrian Banking Act	- 1,115	<b>- 1,282</b>
<b>Qualifying capital (Tier 1 + 2 + 3)</b>	<b>39,341</b>	<b>43,697</b>
<b>Own funds required</b>	<b>28,380</b>	<b>32,142</b>
<b>Own funds surplus</b>	<b>10,961</b>	<b>11,555</b>
<b>Cover ratio in %</b>	<b>138.6</b>	<b>136.0</b>
<b>Own funds surplus from Tier 1 + 2</b>	<b>10,961</b>	<b>11,007</b>
<b>Own funds surplus from Tier 3</b>	<b>-</b>	<b>548</b>
<b>Own funds ratio in %</b>	<b>11.1</b>	<b>11.0</b>
<b>Hereof Tier 1 ratio in %</b>	<b>6.1</b>	<b>6.1</b>

## Combined notes to the 1998 Financial Statements of Erste Bank and Erste Bank Group continued

### 21) Schedule of assets pledged as collateral for debts, in accordance with Section 64 (1) lit. 8 of the Austrian Banking Act, concerning Erste Bank:

Assets	in million ATS	Assets pledged as collateral for debts arising from the following transactions
Fixed-income securities	561	Arrangement deposit in favour of Oesterreichische Kontrollbank AG
	762	Margin requirement
Loans and advances to customers	8,124	Guarantee fund for funded Erste Bank bond issues
	590	Guarantee fund for savings deposits held in trust for a ward
	18,967	Guarantee fund for mortgage and municipal bonds

Further assets pledged as collateral for debts in the Erste Bank Group are of minor importance.

### 22) Total volume of unsettled derivative transactions

a) Erste Bank (in ATS million)		< 1 year	Nominal amounts by remaining maturities		Total
			1-5 years	> 5 years	
<i>Interest rate agreements</i>		788,700	228,906	75,781	<b>1,093,387</b>
OTC products:					
Interest rate options	purchase	35,060	894	0	<b>35,954</b>
	sell	46,232	296	0	<b>46,528</b>
Interest rate swaps		570,716	195,711	73,665	<b>840,092</b>
FRA's		126,300	28,170	0	<b>154,470</b>
Listed products:					
Future contracts		4,095	3,835	712	<b>8,642</b>
Interest rate options		6,297	0	1,404	<b>7,701</b>
<i>Exchange rate agreements</i>		333,875	2,375	3,321	<b>339,571</b>
OTC products:					
Currency options	purchase	32,622	0	0	<b>32,622</b>
	sell	35,778	0	0	<b>35,778</b>
Currency swaps		265,076	2,375	3,321	<b>270,772</b>
Listed products:					
Future contracts		337	0	0	<b>337</b>
Currency Options		62	0	0	<b>62</b>
<i>Precious metal agreements</i>		208	0	0	<b>208</b>
OTC products:					
Precious metal options	purchase	0	0	0	<b>0</b>
	sell	205	0	0	<b>205</b>
Listed products:					
Future contracts		3	0	0	<b>3</b>
Precious metal options		0	0	0	<b>0</b>
<i>Securities-related agreements</i>		12,820	483	256	<b>13,559</b>
OTC products:					
Share options	purchase	231	270	256	<b>757</b>
	sell	6,347	213	0	<b>6,560</b>
Listed products:					
Future contracts		542	0	0	<b>542</b>
Share options		5,700	0	0	<b>5,700</b>
<b>Total</b>		<b>1,135,603</b>	<b>231,764</b>	<b>79,358</b>	<b>1,446,725</b>
Hereof OTC-products		1,118,567	227,929	77,242	1,423,738
Hereof listed		17,036	3,835	2,116	22,987

Note: Interest and currency swaps are shown unilaterally (call only), all other products bilaterally.

The risk-weighted volume of all unsettled derivative transactions to be included in the basis for the qualifying capital required by Section 22 of the Austrian Banking Act, amounts to ATS 2,141.7 million (31st December, 1997: ATS 4,186.7 million). The qualifying capital required for this purpose amounts to ATS 171.3 million (31st December, 1997: ATS 334.9 million). In 1998 for own funds requirements some positions of the derivatives business were allocated to the trading book pursuant to section 22 b (1) of the Austrian Banking Act.



b) Erste Bank Group (in ATS million):

		Nominal amounts by remaining maturities			
		< 1 year	1–5 years	> 5 years	Total
<i>Interest rate agreements</i>		828,731	290,696	93,421	<b>1,212,848</b>
OTC products:					
Interest rate options	purchase	36,146	22,962	10,382	<b>69,490</b>
	sell	46,232	23,239	4,131	<b>73,602</b>
Interest rate swaps		572,218	203,868	76,792	<b>852,878</b>
FRA's		127,951	28,209	0	<b>156,160</b>
Listed products:					
Future contracts		22,435	12,418	712	<b>35,565</b>
Interest rate options		23,749	0	1,404	<b>25,153</b>
<i>Exchange rate agreements</i>		339,594	2,375	3,321	<b>345,290</b>
OTC products:					
Currency options	purchase	32,622	0	0	<b>32,622</b>
	sell	35,778	0	0	<b>35,778</b>
Currency swaps		270,658	2,375	3,321	<b>276,354</b>
Listed products:					
Future contracts		475	0	0	<b>475</b>
Currency Options		62	0	0	<b>62</b>
<i>Precious metal agreements</i>		208	0	0	<b>208</b>
OTC products:					
Precious metal options	purchase	0	0	0	<b>0</b>
	sell	205	0	0	<b>205</b>
Listed products:					
Future contracts		3	0	0	<b>3</b>
Precious metal options		0	0	0	<b>0</b>
<i>Securities-related agreements</i>		60,138	483	256	<b>60,878</b>
OTC products:					
Share options	purchase	3,388	270	256	<b>3,914</b>
	sell	9,152	213	0	<b>9,365</b>
Listed products:					
Future contracts		41,898	0	0	<b>41,898</b>
Share options		5,700	0	0	<b>5,700</b>
<b>Total</b>		<b>1,228,671</b>	<b>293,553</b>	<b>96,997</b>	<b>1,619,222</b>
Hereof OTC-products:		1,134,349	281,136	94,881	1,510,366
Hereof listed		94,322	12,418	2,116	108,856

The risk-weighted volume of all unsettled derivative transactions to be included in the basis for the qualifying capital required by Section 22 of the Austrian Banking Act, amounts to ATS 2,167.8.million (31st December, 1997: ATS 5,982.0 million). The qualifying capital required for this purpose amounts to ATS 173.4 million (31st December, 1997: ATS 478.6 million). In 1998 for own funds requirements some positions of the derivatives business were allocated to the trading book pursuant to Section 22 b (1) Austrian Banking Act.

## Combined notes to the 1998 Financial Statements of Erste Bank and Erste Bank Group continued

### 23) Details on Risk Provisions (in ATS million)

<i>Change of Risk Provisions of Erste Bank (loans and advances to credit institutions and customers as well as contingent liabilities)</i>	Erste Bank Risk provision	Erste Bank Group Risk provision
1st January, 1998	15,178	17,700
less used	- 3,493	- 3,974
less release	- 1,727	- 1,792
plus allocation	3,201	3,659
exchange rate effects and changes of allocation to suspended interest effecting interest income	201	278
<b>31st December, 1998</b>	<b>13,360</b>	<b>15,871</b>

### V. Profit and loss account details

- 1) For the fiscal year the entire mortgage banking business of Erste Bank included in **interest and similar income/expenses** pursuant to Section 6 Mortgage Banking Act, requiring a corresponding collateral to be allocated for mortgage bonds outstanding, resulted in interest income (including public-sector loans and substitute collateral) of ATS 1,304.3 million (1997: ATS 1,488.4 million) and interest expenditure for municipal bond and mortgage bond issues totalling ATS 1,167.1 million (1997: ATS 1,351.7 million).

The net of commission income and expenses arising from mortgage banking operations shows an income of ATS 16.1 million (previous year: ATS 19.1 million).

- 2) Profit transfers from affiliated companies reported as **income from shares in affiliated companies** (those which are in a single entity relationship for tax purposes) amounted in 1998 to ATS 750.6 million (1997: ATS 452.1 million). In the reporting year there were no value adjustments and other expenses for affiliated companies (1997: ATS 4.9 million).
- 3) **Income from non-consolidated participating interests and shares in affiliated undertakings** in the financial year 1998 in Erste Bank Group is shown below. Dividends received from other non-consolidated undertakings break down as follows (in ATS million):

	Companies stated at equity	Other companies
Income from participating interests	204	107
Income from shares in affiliated companies	75	49
<b>Total</b>	<b>279</b>	<b>156</b>

- 4) The **gross revenue** of Erste Bank and the Erste Bank Group can be split according to the following regional schedule based on the corporate seat of the places of business and subsidiaries (in ATS million):

	Domestic	Abroad	Erste Bank	Domestic	Abroad	Erste Bank Group
Interest income	26,754	3,945	<b>30,699</b>	32,183	6,826	<b>39,009</b>
Income from securities and participations	1,356	8	<b>1,364</b>	893	20	<b>913</b>
Net commission and fee income	3,521	44	<b>3,565</b>	4,784	260	<b>5,044</b>
Net profit from trading activities	1,426	10	<b>1,436</b>	1,495	128	<b>1,623</b>
Other operating income	65	12	<b>77</b>	937	58	<b>995</b>
<b>Total</b>	<b>33,122</b>	<b>4,019</b>	<b>37,141</b>	<b>40,292</b>	<b>7,292</b>	<b>47,584</b>

- 5) The gross commission and fee income includes revenue from **management and agency services** of ATS 616.1 million (1997: ATS 647.8 million). At group level, the value amounts to ATS 621.7 (1997: ATS 654.4 million).

- 6) **Other operating income**, shown in Erste Bank with an amount of ATS 77.4 million (1997: ATS 98.6 million), includes, among others, proceeds from rentals and sale of real estate purchased on auctions.
- The amount of ATS 995.4 million (1997: ATS 1,040.2 million) shown in Erste Bank Group includes, among others, proceeds from construction services, commission for cash transfers and sales to third parties by undertakings ancillary to the bank, rental income and income from operating expenses charged to the lessee under real-estate leasing agreements as well as release of provisions.
- 7) **Other operating expenses** of Erste Bank of ATS 22.9 million (1997: ATS 36.2 million) essentially consist of expenses for real estates. Other operating expenses of Erste Bank Group in the amount of ATS 767.0 million (1997: 742.0 million) included, among others, commissions paid for building society contracts, operating expenses in connection with real-estate leasing agreements and costs of goods sold by undertakings ancillary to the bank.
- 8) The **extraordinary expenses** shown in Erste Bank in the amount of ATS 145.1 million (1997: ATS 282.9 million) include on the one hand the amortisation of the unrecognised pension liability amounting to ATS 67.1 million and on the other hand the pro rata release of the difference of ATS 78.0 million from the transfer of pension rights accrued for actives to the pension fund shown under prepaid expenses. On the group level there were merger-related expenses increasing the amount to ATS 168.3 million (1997: ATS 289.3 million).
- 9) **Taxes on income and earnings** include in Erste Bank essentially withholding taxes and income taxes of previous years. The change in untaxed reserves was not tax effective in 1998, since on balance Erste Bank had no corporate tax expenses. For the same reason the results of ordinary activities and the extraordinary result are not taxed.
- 10) **Deferred tax assets** not recorded in the accounts pursuant to Section 237 (6) lit. c. Austrian Commercial Code amounted to ATS 165.4 million (1997: ATS 507.8 million) for Erste Bank as of 31st December, 1998. Deferred taxes on non-effected revaluation of Erste Bank amount to ATS 3.0 million (1997: ATS 5.3 million). Provisions for deferred taxes in the amount of ATS 96.6 million as of 31st December, 1998 (31st December, 1997: ATS 90.5 million) are reported in the Consolidated Financial Statements.

## VI. Details about Boards and Employees

### 1) Employees

The average number of employees of Erste Bank (excluding employees absent for maternity and other authorised leave and taking part-time employees into account on a pro rata basis) during 1998, totalled 5,184 employees (1997: 5,209). In Erste Bank Group (fully consolidated companies) the average number of employees in 1998, calculated according to the calculation method set forth above, was 8,739 (1997: 9,123).

In the financial year, 261 (1997: 134) of the employees of Erste Bank were – against reimbursement of expenses – active in other undertakings. The reimbursement of expenses amounted to ATS 250.8 million (1997: 112.2 million) and was deducted from personnel expenses.

### 2) Boards

At the balance sheet date, loans and advances to members of the Managing Board amounted to ATS 4.5 million (1997: ATS 3.5 million). Loans to members of the Supervisory Board amounted to ATS 6.2 million (1997: ATS 6.9 million). Interest and other terms (maturity dates and collaterals) are at market levels. In the case of loans to members of the Managing Board ATS 0.6 million (1997: ATS 4.4 million) were repaid during the financial year; ATS 2.7 million (1997: ATS 2.1 million) were repaid from the loans to members of the Supervisory Board.

Total remuneration for the members of the Managing Board active during the financial year 1998 amounted to ATS 25.4 million (1997: ATS 29.9 million) including a profit-related bonus for 1998, equal to 0.52% of Erste Bank's total personnel costs for 1998.

ATS 5.5 million (previous year: ATS 2.1 million) was paid during the financial year to former members of the Managing Board and their surviving dependants.

Total remuneration for the members of the Supervisory Board active during the financial year amounted to ATS 4.0 million (previous year: ATS 2.9 million).

The expenses for severance payments, pensions compensations and pensions of Erste Bank are included in the profit and loss account item "personnel expenses", and – as the backlog of demand for proportionate period of time is concerned – "extraordinary expenditures".

## Combined notes to the 1998 Financial Statements of Erste Bank and Erste Bank Group continued

The expenses for severance payments and pensions for members of the Managing Board and senior management, in accordance with Section 80 (1) of the Stock Corporation Act, totalled ATS 96.8 million (1997: ATS 142.9 million). The expenses for severance payments and pensions for other employees amounted to ATS 777.2 million (1997: ATS 634.0 million).

Expenses for severance payments and pensions for employees of companies included in the consolidated accounts are included in the equivalent items of the consolidated profit and loss account. Expenses for severance payments and pensions for members of the Managing Board and senior management as well as managing directors in the group amounted to ATS 142.6 million (1997: ATS 188.7 million). The expenses for severance payments and pensions for other employees amounted to ATS 941.3 million (1997: ATS 799.6 million).

The amounts reported include expenses for surviving dependants.

Details concerning members of the Managing Board and the Supervisory Board in accordance with Section 239 (2) of the Commercial Code are reported separately as a part of the notes of the company report.

Vienna, 6th April, 1999

### The Managing Board

Andreas Treichl  
*Chairman*

Elisabeth Bleyleben-Koren  
*Member*

Reinhard Ortner  
*Member*

Franz Hochstrasser  
*Member*

Peter Ostermann  
*Member*

## Report of Supervisory Board

During 1998, the Supervisory Board was regularly informed by the Managing Board about the course of business and of the status of Erste Bank der oesterreichischen Sparkassen AG and the Supervisory Board performed all the duties required by law and set out in Erste Bank's Articles of Association.

The annual accounts and the consolidated accounts, including the status report and the consolidated status report, were audited by Sparkassen-Prüfungsverband and by Eidos Wirtschaftsberatung GmbH, Wirtschaftsprüfungs- und Steuerberatungsgesellschaft. The final result of the audit gave no cause for complaint and an unqualified audit certificate was issued.

The Supervisory Board has accepted the result of the audit and has approved the status report submitted by the Managing Board as well as its proposal concerning the distribution of profits. The Supervisory Board has accordingly sanctioned the 1998 annual accounts, which are therefore approved in accordance with § 125 clause 2 of the Austrian Stock Corporation Act and has taken note of the consolidated annual accounts.

Vienna, April 1999

Herbert Schimetschek  
Chairman of the Supervisory Board

#### Audit Opinion

According to our due audit, the accounting and Financial Statements of Erste Bank and Erste Bank Group comply with legal regulations. The Financial Statements of Erste Bank and Erste Bank Group give a true and fair view of the Bank's and the Group's assets, financial and earning positions in conformity with generally accepted accounting principles. The combined status report of the Bank and the Group conforms with the Financial Statements.

*Vienna, 12th April, 1999*

Sparkassen-Prüfungsverband  
Prüfungsstelle

Wolfgang Riedl  
*Public Accountant*

Klaus Goschler  
*Audit Director*

Eidos Wirtschaftsberatung GmbH  
*Wirtschaftsprüfungs- und Steuerberatungsgesellschaft*

Erich Kandler      Wolfgang Houska  
*Public Accountants*

#### Profit distribution proposal

Subject to the approval of the proposed profit distribution by the shareholders' meeting the owners of the Erste Bank participation certificates will receive a 16% dividend on the nominal participation capital of ATS 5,000,000.00 with analogous consideration of Section 65 (5) of the Stock Corporation Act.

The Managing Board proposes to distribute a dividend of 16% on the subscribed capital, nominal ATS 4,436,079,900.00, out of the accumulated profits with due consideration of section 65 (5) of the Stock Corporation Act and to carry forward the remaining profits to the next year.

## Annex to the Notes

### Executive bodies of Erste Bank

#### Supervisory Board

Herbert Schimetschek

President

Walter Stauffer

Vice President

Karl Korinek

2nd Vice President

Karl Blab

from 26.5.1998

Dietrich Blahut

Klaus Braunegg

Dirk Bruneel

from 26.5.1998

Elisabeth Gürtler

from 26.5.1998

Werner Hutschinski

Theresa Jordis

from 26.5.1998

Dietrich Karner

from 26.5.1998

Heinz Kessler

from 26.5.1998

Michael Krainz

from 26.5.1998

Axel Freiherr von Ruedorffer

from 26.5.1998

Jörg Schneider

Georg Winckler

#### Delegated by the Employee Council

Rudolf Tschögl

Chairman of the Central Employee Council

until 6.5.1998

Erika Hegmala

2nd Deputy Chairman of the Central Employee Council until 6.5.1998

Chairman of the Central Employee Council

from 7.5.1998

Ernst Lukesch

1st Deputy Chairman of the Central Employee Council

Hedwig Chmelik

2nd Deputy Chairman of the Central Employee Council from 7.5.1998

Josef Kronemann

3rd Deputy Chairman of the Central Employee Council from 26.5.1998

Heinrich Wildfellner

4th Deputy Chairman of the Central Employee Council from 26.5.1998

Günter Benischek

Chairman of the Employee Council

and member of the Central Employee Council

Christine Brandstätter

Member of the Central Employee Council

from 26.5.1998

Josef Bauer

Member of the Central Employee Council

from 26.5.1998

#### Representatives of the Supervisory Authority

Robert Spacek

Senate Councillor, State Commissioner

Peter Pillmeier

Chief Senate Councillor, Deputy State Commissioner

Christian Trattner

Councillor, Commissioner for Guarantee Stock

Erhard Moser

Councillor, Vice-Commissioner for Guarantee Stock

Robert Tummeltshammer

Councillor, Commissioner for Guarantee Stock Economic Bonds

Otto Mohr

Councillor, Trustee for Guarantee of Mortgage and Municipal Bonds

Anton Rainer

Councillor, Trustee for Guarantee of Mortgage and Municipal Bonds

#### Managing Board

Andreas Treichl

Chairman

Elisabeth Bleyleben-Koren

Member

Reinhard Ortner

Member

Rudolf Penz

Member

until 31.12.1998

Georg Tucek

Member

until 31.12.1998

Franz Hochstrasser

Member

from 1.1.1999

Peter Ostermann

Member

from 1.1.1999

## Consolidated Fixed Assets Schedule 1998 – Erste Bank Group

(in ATS million)	Cost			Exchange rate revaluation write-ups acc to Section 56 (3) Banking Act	Accumulated depreciation & amortisation 31/12/98	Book value as of 31/12/98	Book value as of 1/1/98	Depreciation & amortisation expenses for 1998
	as of 1/1/1998	Additions	Disposals					
1) Participating interests	<b>5,368.8</b>	<b>2,261.6</b>	<b>1,189.3</b>	<b>0.0</b>	<b>917.5</b>	<b>5,523.6</b>	<b>4,516.8</b>	<b>66.2</b>
2) Shares in affiliated undertakings	<b>3,149.3</b>	<b>211.7</b>	<b>524.0</b>	<b>0.0</b>	<b>1,214.5</b>	<b>1,622.5</b>	<b>2,094.7</b>	<b>159.9</b>
3) Intangible fixed assets								
Goodwill	1,148.5	397.0	0.0	0.0	1,012.9	532.6	291.1	34.3
Others	2,207.1	956.1	247.4	0.0	1,672.5	1,243.3	874.8	240.6
	<b>3,355.6</b>	<b>1,353.1</b>	<b>247.4</b>	<b>0.0</b>	<b>2,685.4</b>	<b>1,775.9</b>	<b>1,165.9</b>	<b>274.9</b>
4) Tangible fixed assets	<b>14,185.7</b>	<b>3,871.4</b>	<b>931.7</b>	<b>0.0</b>	<b>6,270.5</b>	<b>10,854.9</b>	<b>8,755.2</b>	<b>840.0</b>
5) Securities								
Treasury bills and similar securities	34,297.5	12,768.7	18,326.9	29.0	375.2	28,393.1	34,063.9	190.4
Loans & advances to Credit institutions	2,381.7	8,549.4	2,059.3	34.0	187.9	8,717.9	2,384.0	28.5
Debt securities and other fixed-income securities	2,840.0	6,795.9	912.7	21.7	111.9	8,633.0	2,840.5	87.1
Loans & advances to customers	17,528.5	15,507.3	6,068.0	195.4	1,013.8	26,149.4	17,481.9	219.6
Shares and other variable yield securities	7,199.5	3,339.5	1,970.2	2.2	96.2	8,474.8	7,142.8	28.2
	<b>64,247.2</b>	<b>46,960.8</b>	<b>29,337.1</b>	<b>282.3</b>	<b>1,785.0</b>	<b>80,368.2</b>	<b>63,913.1</b>	<b>553.8</b>
<b>Total fixed assets</b>	<b>90,306.6</b>	<b>54,658.6</b>	<b>32,229.5</b>	<b>282.3</b>	<b>12,872.9</b>	<b>100,145.1</b>	<b>80,445.7</b>	<b>1,894.8</b>

## Fixed Assets Schedule 1998 – Erste Bank

(in ATS million)	Cost			Exchange rate revaluation write-ups acc to Section 56 (3) Banking Act	Accumulated depreciation & amortisation 31/12/98	Book value as of 31/12/98	Book value as of 1/1/98	Depreciation & amortisation expenses for 1998
	as of 1/1/1998	Additions	Disposals					
1) Participating interests	<b>4,156.5</b>	<b>1,640.6</b>	<b>1,020.9</b>	<b>0.0</b>	<b>240.1</b>	<b>4,536.1</b>	<b>3,776.8</b>	<b>46.2</b>
2) Shares in affiliated undertakings	<b>18,476.1</b>	<b>5,797.4</b>	<b>7,062.0</b>	<b>0.0</b>	<b>561.6</b>	<b>16,649.9</b>	<b>16,203.4</b>	<b>82.3</b>
3) Intangible fixed assets								
Goodwill	889.2	18.5	0.0	0.0	754.3	153.4	153.9	19.0
Others	1,384.0	796.4	196.0	0.0	1,099.4	885.0	434.7	173.2
	<b>2,273.2</b>	<b>814.9</b>	<b>196.0</b>	<b>0.0</b>	<b>1,853.7</b>	<b>1,038.4</b>	<b>588.6</b>	<b>192.2</b>
4) Tangible fixed assets	<b>6,256.6</b>	<b>1,176.7</b>	<b>503.0</b>	<b>0.0</b>	<b>3,934.6</b>	<b>2,995.7</b>	<b>2,695.9</b>	<b>478.2</b>
5) Securities								
Treasury bills and similar securities	30,422.0	9,429.6	13,458.1	29.0	322.9	26,099.6	30,244.4	188.8
Loans & advances to credit institutions	2,359.9	3,719.3	584.2	34.0	153.9	5,375.1	2,361.9	28.5
Loans & advances to customers	2,759.4	6,695.5	862.7	21.7	90.2	8,523.7	2,760.9	87.1
Debt securities and other fixed-income securities	14,005.1	11,007.8	3,673.4	195.4	818.4	20,716.5	13,986.9	219.3
Shares and other variable yield securities	3,894.3	1,141.5	1,649.6	0.0	51.1	3,335.1	3,881.5	10.0
	<b>53,440.7</b>	<b>31,993.7</b>	<b>20,228.0</b>	<b>280.1</b>	<b>1,436.5</b>	<b>64,050.0</b>	<b>53,235.6</b>	<b>533.7</b>
<b>Total fixed assets</b>	<b>84,603.1</b>	<b>41,438.4</b>	<b>29,025.0</b>	<b>280.1</b>	<b>8,026.5</b>	<b>89,270.1</b>	<b>76,500.3</b>	<b>1,332.6</b>

## Annex to the Notes continued

### Details of the Companies within the Group for 1998

Following Sections 238 (2) and 265 of the Commercial Code this list of participations is part of the combined notes of Erste Bank Group. A complete list of all subsidiaries has been filed with the register court in accordance with Section 265 (4) Commercial Code

Company, residence	Percentage of interest	Participation direct	Participation indirect	Shareholders' equity <sup>1)</sup> in ATS million	Net income <sup>2)</sup> in ATS million	Profit-transfer <sup>3)</sup>	Date of the balance sheet
<b>1) Credit Institutions</b>							
<b>a) Fully consolidated companies</b>							
Bausparkasse der österreichischen Sparkassen AG, Vienna	100.00	●		1,726.8	226.6	●	31/12/1998
DIE ERSTE & CONSTANTIA Beteiligungsfonds							
Aktiengesellschaft, Vienna	100.00	●		198.9	10.0	●	31/12/1998
Erste Bank S-Finanzdienstleistungen GmbH, Vienna	100.00	●		70.8	2.9	●	31/12/1998
First Austrian International Ltd., London	100.00	●		350.7	20.2		31/12/1998
ERSTE Bank Hungary Rt., Budapest							
(including 2 subsidiaries)	95.78	●		455.1	- 222.5		31/12/1998
ERSTE-SPARINVEST KapitalanlagegesmbH, Vienna	83.34	●	●	56.1	366.8	●	31/12/1998
S-Wohnbaubank AG, Vienna							
(including 2 subsidiaries)	76.54	●	●	373.9	27.3		31/12/1998
Salzburger Sparkasse Bank Aktiengesellschaft, Salzburg							
(including 11 subsidiaries)	68.46	●	●	2,232.6	61.2		31/12/1998
Erste Bank Sparkassen (CR) a.s., Prague	66.67	●		339.5	53.0		31/12/1998
Intermarket Factoring Bank Aktiengesellschaft, Vienna	54.00	●		182.9	17.1		31/12/1998
Erste Bank (Malta) Limited, Sliema	100.00		●	807.1	37.3		31/12/1998
OTTHON Magyar-Osziák Lakás-takarékpénztár Rt., Budapest	85.00		●	68.3	- 14.2		31/12/1998
<b>b) Companies stated at equity</b>							
"SPAR-FINANZ"-Investitions- und Vermittlungs-AG, Vienna							
Finanzierungs-Aktiengesellschaft	50.00	●		37.5	1.2		31/12/1997
österreichischer Sparkassen, Vienna							
österreichischer Sparkassen, Vienna	49.58	●	●	22.2	0.0		31/12/1998
Niederösterreichische Kapitalbeteiligungsgesellschaft mbH, Vienna	40.00	●	●	37.9	2.3		30/09/1998
Sparkasse Mühlviertel West Bank Aktiengesellschaft, Rohrbach	40.00	●		446.0	0.3		31/12/1997
MAZDA Bank Austria AG, Klagenfurt	33.33	●		24.8	2.1		31/12/1997
Niederösterreichische Sparkasse Hainburg, Bank AG, Hainburg							
Bank AG, Hainburg	26.04	●		326.7	34.2		31/12/1997
Bjelovarska Banka d.d., Bjelovar	25.00	●		495.0	81.2		31/12/1997
Niederösterreichische Kreditbürgschaftsgesellschaft mbH, Vienna	25.00	●		90.9	0.3		31/12/1997
Sparkasse Bregenz Bank Aktiengesellschaft, Bregenz	25.00	●		202.1	47.8		31/12/1998
Sparkasse Kremstal-Pyhrn Aktiengesellschaft, Kirchdorf	24.05	●		314.1	17.8		31/12/1997
Beteiligungsfinanzierungs-Aktiengesellschaft, Vienna	22.78	●		239.4	42.1		31/03/1997
Österreichische Hotel- und Tourismusbank Gesellschaft m.b.H., Vienna							
Gesellschaft m.b.H., Vienna	18.75		●	358.4	4.6		31/12/1998
<b>c) Companies stated at cost</b>							
Kapital-Beteiligungs Aktiengesellschaft, Vienna	15.00	●		118.3	1.2		30/09/1998
Oesterreichische Kontrollbank AG, Vienna	12.89	●		2,742.3	204.4		31/12/1997
Österreichische Investitionskredit AG, Vienna	11.26	●		3,042.2	106.6		31/12/1998
Istrobanka a.s., Bratislava	10.00	●		413.6	33.6		31/12/1997
Die Burgenländische Anlage und Kredit Bank AG, Mattersburg	9.00	●		307.2	12.5		31/12/1998
Sparkasse der Stadt Knittelfeld AG, Knittelfeld	9.00	●		349.3	24.2		31/12/1998
Europay Austria Zahlungsverkehrssysteme GmbH, Vienna	2.70	●	●	408.8	143.1		31/12/1997
BRE Bank Spolka Akcyjna, Warsaw	2.02	●		3,101.2	476.4		31/12/1997
Allgemeine Sparkasse Oberösterreich Bank AG, Linz	3.46		●	3,037.5	142.7		31/12/1997



Company, residence	Percentage of interest	Participation direct	Participation indirect	Shareholders' equity <sup>1)</sup> in ATS million	Net income <sup>2)</sup> in ATS million	Profit-transfer <sup>3)</sup>	Date of the balance sheet
<b>2) Financial institutions</b>							
a) Fully consolidated companies							
EBV Leasing GmbH & Co KG, Vienna	100.00	●		35.5	6.0		31/12/1998
Erste Securities Polska S.A., Warsaw	100.00	●		34.1	- 19.3		31/12/1998
Erste Securities Romania S.A., Bucharest	100.00	●		4.6	- 2.1		31/12/1998
Immorent AG, Vienna (sub group including 164 subsidiaries)	100.00	●		3,812.3	317.6	●	31/12/1998
Erste Bank Investment Hungary Rt., Budapest	99.42	●	●	113.8	20.7		31/12/1998
Erste Securities Zagreb d.o.o., Zagreb	88.57	●		5.3	- 6.4		31/12/1998
b) Companies stated at equity							
Österreichisches Volkswohnungswerk							
gemeinnützige GmbH, Vienna	100.00	●	●	238.6	14.9		31/12/1997
Erste Bank Artesia Securities Inc., New York	50.00	●		2.5	- 2.7		31/12/1998
Neue Eisenstädter- gemeinnützige Bau-, Wohn- u. Siedlungsges.mBH, Eisenstadt							
	49.80	●		7.2	- 2.5		31/12/1997
Leasfinanz AG, Vienna (group)	25.00	●		27.3	5.7		31/12/1997
c) Companies stated at cost							
Wohnungseigentümer gemeinnützige							
Wohnbauges.mBH, St. Pölten	26.00	●	●	75.8	8.9		31/12/1997
STUWO Gemeinnützige Studentenwohnbau AG, Vienna	50.00		●	9.4	0.0		31/12/1997
Wohnbauhilfe gemeinnützige GmbH, Graz	26.00		●	16.6	- 1.1		31/12/1997
Gesellschaft für den Wohnungsbau gemeinnützige GmbH, Linz	20.00		●	76.1	9.9		31/12/1997
AMandA Industriebeteiligungen Gesellschaft m.b.H., Frankfurt am Main (group)							
	15.00		●	10.8	2.0		31/12/1997
<b>3) Others</b>							
a) Fully consolidated companies							
BSB - Bau-, System- und Betriebstechnik							
Gesellschaft m.b.H., Vienna	100.00	●		1.0	0.5	●	31/12/1998
EB-IT-Erste Bank Informations-Technologie Ges.m.b.H., Vienna	100.00	●		0.7	2.6	●	31/12/1998
EB-Logistik, Betriebs- und Hausservice Ges.m.b.H., Vienna	100.00	●		0.6	7.6	●	31/12/1998
EB-Malta-Beteiligungen GmbH, Vienna	100.00	●		311.7	41.9		31/12/1998
EB-Restaurantsbetriebe Ges.m.b.H., Vienna	100.00	●		2.0	0.6	●	31/12/1998
Erste Bank Beteiligungen Gesellschaft m.b.H., Vienna	100.00	●		401.9	32.9		31/12/1998
Erste Bank-Immobilienverwaltung GmbH, Vienna	100.00	●		1,607.7	0.6	●	31/12/1998
Erste Financial Advisor (Romania) SRL, Bucharest	100.00	●		6.8	- 3.4		31/12/1998
Erste Investment Sp.z.o.o., Warsaw	100.00	●		3.7	- 2.8		31/12/1998
GZV-Gesellschaft für Zahlungsverkehr GmbH, Vienna	100.00	●		2.6	13.4	●	31/12/1998
SH-Immobilien GmbH, Haag	100.00	●		4.2	0.2		31/12/1998
S-WB Beteiligungsges.m.b.H, Vienna	100.00	●	●	90.4	0.0		30/09/1998
VMG-Erste Bank Versicherungsmakler GmbH, Vienna	100.00	●		18.3	22.6	●	31/12/1998
S-Tourismusfonds Management AG, Vienna	98.69	●	●	1,001.7	15.6		31/10/1998
ÖHFT-Vermögensverwaltungsges.m.b.H., Vienna	75.00	●		32.4	0.7		30/09/1998
Sparkassenbeteiligungs und Service AG für							
Oberösterreich und Salzburg, Linz	69.25	●		247.4	3.6		31/12/1998
NÖBG-Vermögensverwaltungsges.m.b.H., Vienna	66.67	●		11.4	0.3		31/12/1998

Annex to the Notes continued

Company, residence	Percentage of interest	Participation direct	Participation indirect	Shareholders' equity <sup>1)</sup> in ATS million	Net income <sup>2)</sup> in ATS million	Profit-transfer <sup>3)</sup>	Date of the balance sheet
SPARDAT Sparkassen-Datendienst							
Gesellschaft m.b.H., Vienna	66.32	●	●	44.5	16.4		31/12/1998
Beta Immobilienvermietung AG, Vienna	100.00		●	164.3	3.0		31/12/1998
DIE ERSTE Immobilienvermietungs GmbH, Vienna	100.00		●	1,356.0	4.0		31/12/1998
Erste Bank Liegenschaftsverwaltungsges.m.b.H., Vienna	100.00		●	906.0	6.1		31/12/1998
Hoher Markt 4 Besitzgesellschaft mbH, Vienna	100.00		●	136.3	1.0		31/12/1998
Museumstraße 31 Bürohausanlage Errichtungs- und Vermietungsges.mbH, Linz	100.00		●	- 8.6	- 5.1		31/12/1998
Österreichisches Credit-Institut							
Unternehmensberatungsgesellschaft m.b.H., Vienna	100.00		●	- 0.2	0.0		31/12/1998
b) Companies stated at equity							
DIE ERSTE Bauträger AG, Vienna (group)	100.00	●	●	37.3	- 9.8		31/12/1998
DIE ERSTE Vermögensverwaltungs Gesellschaft mbH, Vienna	100.00	●		0.4	0.0		31/12/1997
EB-Touristik Unternehmensbeteiligung AG, Vienna	100.00	●		75.1	37.4		31/08/1998
ECO Unternehmensbeteiligungs-Aktiengesellschaft, Vienna	100.00	●	●	100.9	0.0		31/12/1998
Gartenbau-Grundstücksverwertung GesmbH, Vienna	100.00	●	●	44.1	0.3		31/12/1997
Nova Reisebüro GmbH, Vienna	100.00	●		3.8	1.3		31/12/1997
Realia Immobilien-Verwertungs-AG, Vienna	100.00	●	●	67.2	- 4.7		31/12/1997
Real-Service-Realitätenvermittlungsges.m.b.H., Vienna	100.00	●	●	3.1	- 3.1		31/12/1998
UBG-Unternehmensbeteiligungsges.mbH, Vienna	100.00	●		3.5	0.0		31/12/1997
Wohnungseigentum- und Beteiligungsges.mbH, Vienna	100.00	●		0.5	0.0		31/12/1997
Industriegrundstücks-Verwaltungsges.m.b.H., Laxenburg	76.00	●		167.0	4.8		31/12/1998
Dunapart Bürohauscenter Kft., Budapest	75.00	●	●	82.3	- 40.8		31/12/1998
Sparkassen-Immobilienanlagen AG, Vienna	63.90	●	●	178.2	60.6		30/06/1998
S-Informatik Gesellschaft m.b.H., Vienna	53.26	●	●	1.3	0.2		31/12/1997
GESCO Gesellschaft für Unternehmenscommunication							
Gesellschaft m.b.H., Vienna	52.00	●		11.9	3.8		31/12/1997
E-C-A Holding GmbH, Vienna	50.00	●		68.3	42.9		30/04/1998
EFH Beteiligungsges.mbH, Vienna	50.00	●		0.2	0.0		31/12/1998
MAZDA Austria GmbH, Klagenfurt (group)	50.00	●		191.3	32.5		31/12/1997
Logistik Zone Tirol GmbH, Hall	48.67	●		42.6	1.1		31/12/1997
Hotel ANANAS-Hotelbetriebsges.m.b.H. & Co KG, Vienna	41.10	●		15.4	- 12.4		31/12/1997
Sparkassen-Versicherung Aktiengesellschaft, Vienna	38.90	●	●	662.3	85.9		31/12/1997
Erste Wiener Hotel-AG, Vienna	35.15	●		354.8	- 15.7		31/12/1997
RSV Beteiligungs-Gesellschaft m.b.H., Vienna (Lotto-Toto)	33.33	●		35.6	28.2		31/10/1998
Tech-Tirol Technologiezentrum GesmbH & Co KG, Innsbruck	32.26	●		3.7	0.4		31/12/1997
Sparkassenverlag Gesellschaft m.b.H., Vienna	30.00	●		89.7	2.0		31/12/1997
Vermreal Liegenschaftserwerbs- u. Betriebsges.mbH, Vienna	25.60	●		23.4	- 0.2		31/12/1998
Informations-Technologie Austria GmbH, Vienna	25.35	●		462.2	- 30.4		31/12/1998
Sparkassen Haftungs AG, Vienna	25.32	●	●	2.9	0.0		31/12/1997
Vereinigte Pensionskasse AG, Vienna	25.13	●		122.2	2.0		31/12/1997
DIE ERSTE Immobilien AG, Vienna (group)	25.00	●		2,349.9	13.7		31/12/1998
Eybl International AG, Krems (group)	25.00	●		219.8	70.2		31/12/1997
LTB Beteiligungs-Gesellschaft mbH, Vienna (Lotto-Toto)	25.00	●		36.1	28.2		30/11/1998
ÖVKB Holding GmbH, Vienna	25.00	●		19.2	3.0		31/12/1998
Hemingway Holding AG, Vienna	45.60		●	64.7	- 15.0		31/12/1997

Company, residence	Percentage of interest	Participation direct	Participation indirect	Shareholders' equity <sup>1)</sup> in ATS million	Net income <sup>2)</sup> in ATS million	Profit-transfer <sup>3)</sup>	Date of the balance sheet
c) Companies stated at cost							
Erste Finance (Warsaw) Ltd., Warsaw	100.00	●		- 0.3	- 0.5		31/12/1997
S-Dachstein-Tauern-Regions-Service Gesellschaft mbH, Schladming	100.00	●		1.9	0.1		31/12/1997
Sparkassen-Betriebsgesellschaft m.b.H., Linz	26.00	●		20.1	0.0		30/09/1997
SPV-Druck Gesellschaft m.b.H., Vienna	25.00	●		4.4	1.7		31/12/1997
ZV Zahlungsverkehrsgesellschaft m.b.H., Klagenfurt	25.00	●		0.4	0.0		31/12/1997
Donau Allgemeine Versicherungs Aktiengesellschaft, Vienna	20.00	●		1,164.3	75.2		31/12/1997
WED Holding GmbH, Vienna	19.24	●		155.7	- 0.1		31/12/1997
Arwag Holding AG, Vienna	19.17	●		117.0	7.8		31/12/1997
BVP-Pensionskassen AG, Vienna	17.00	●		79.2	2.0		31/12/1997
BVP-Pensionsvorsorge-Consult-GmbH	17.00	●		1.7	0.4		30/06/1998
Wiener Börse AG, Vienna	9.92	●	●	271.0	- 11.6		31/12/1998
Radex-Heraklith Industriebeteiligungs AG, Radenthein	5.03	●		4,236.6	299.3		31/12/1997
Messer igm Robotersysteme AG, Wr. Neudorf	19.22		●	242.0	18.9		31/08/1998

1) Shareholders' equity pursuant to para 224 Austrian Commercial Code including untaxed reserves

2) Net income before changes of reserves

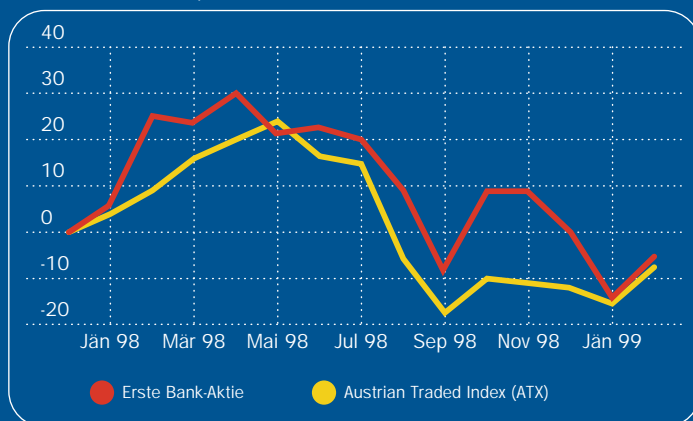
3) Single entity relationship

\* Amounts in foreign currency were valued at the customary mean rate of year end 1998

## Notes

## Information for shareholders

Erste Bank share price relative to ATX in 1998 (rebased)



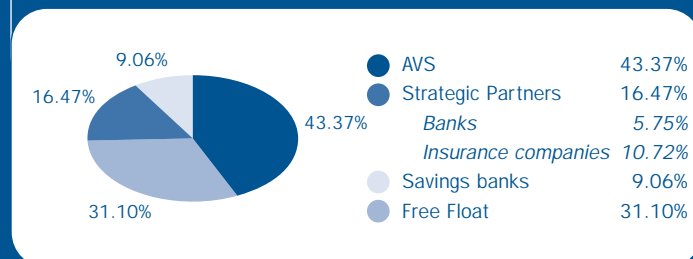
### Erste Bank share price indicators

Earnings/share 1998	ATS 53	EUR 3.85
Earnings/share 1998e <sup>1</sup>	ATS 56.50	EUR 4.11
Dividend/share 1998 <sup>2</sup>	ATS 16	EUR 1.16
Price at 30.12.1998	ATS 627.50	EUR 45.60
High 1998	ATS 860	EUR 62.50
Low 1998	ATS 508	EUR 36.92
Stock exchange turnover 1998	ATS 21.31 billion	EUR 1.55 billion
Price at 31.3.1999		EUR 47
Market capitalisation at 31.3.1999		EUR 2.08 billion
P/E ratio at 1.3.1999 <sup>1</sup>		11.4

<sup>1</sup> Average of estimates for 1998 and 1999 by leading analysts

<sup>2</sup> Recommendation to the annual general meeting of shareholders

### Shareholder structure of Erste Bank



### Share performance 1998

Erste Bank's share was included into the ATX, the index for the leading Austrian equities, on 22.12.1997 with a 10% weighting and developed to one of the most actively traded stocks in the course of the year. At the end of 1998 the share ranked 6<sup>th</sup> and 4<sup>th</sup> with regard to turnover and market capitalisation of shares within the index respectively. With an increase of 21% during the first half of 1998 the share price substantially outperformed the ATX (+14.7%), but since July came under pressure, in line with most other financial stocks, from the negative impact of the international financial crises.

Erste Bank share was priced at ATS 508 (year low) at the start of October 1998. From this lowpoint the share price recovered, gaining more than 40% in November. With steadily decreasing volume this trend could not be sustained until the end of the year. Erste Bank was down 0.4% on the year but visibly outperformed the ATX which depreciated by 14.7%.

### Important dates for shareholders

April 26 <sup>th</sup> 1999	Announcement of 1 <sup>st</sup> Quarter 1999 Results
June 1 <sup>st</sup> 1999	Annual General Meeting
June 7 <sup>th</sup> 1999	Ex-dividend day
June 7 <sup>th</sup> 1999	Dividend payment day & payment of "cash bonus" to retail investors in the 1997 Erste Bank IPO
July 29 <sup>th</sup> 1999	Press conference & announcement of Half Year 1999 results
October 27 <sup>th</sup> 1999	Announcement of 3 <sup>rd</sup> Quarter 1999 Results

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