1999 Annual Report

Erste Bank – the leading retail bank in Central Europe

1999
Annual Report

ERSTE BANK GROUP

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Investor Relations

Erste Bank, Graben 21, 1010 Wien

Fax: +43-1-531-00-3112
E-mail: investor.relations@erstebank.co.at
Internet: www.erstebank.at/ir
Reuters: ERST.VI
Bloomberg: DESC AV
Data Stream: O:ERS
Securities ID: 065201
GDR Cusip-Code: 296 036 106

Gabriele Semmelrock-Werzer
Telephone: +43-1-53100-1286
E-mail: gabriele.werzer@erstebank.at

Isabelle Dubos
Telephone: +43-1-53100-7326
E-mail: isabelle.dubos@erstebank.at

Information for shareholders

At the annual general meeting at 11 May 2000 it will be proposed to pay an increased dividend of EUR 1.24 per share for the 1999 financial year (1998: EUR 1.16). Based on the price of the Erste Bank share on 29 December 1999 of EUR 44, this distribution amounts to a dividend yield of 2.8%.

Earnings per share increased in 1999 to EUR 3.74 on the previous year's level (restated in IAS terms) of EUR 3.02. With shareholders' equity in Erste Bank AG at EUR 1,436 million (as compared to the previous year's pro-forma IAS figure of EUR 1,314 million), the book value per share at the end of 1999 was therefore EUR 32.34.

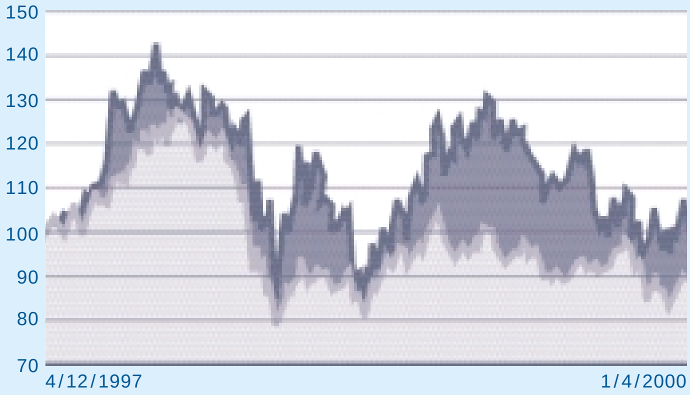
Share performance in 1999

With a weighting of 8.76% at 31 December 1999, the Erste Bank share is one of the key constituents the Vienna Stock Exchange index, the ATX. At end 1999 Erste Bank's share ranked fourth in Austria by market capitalisation. Its turnover, the fifth highest in the index, makes it one of the most liquid of the 22 ATX stock.

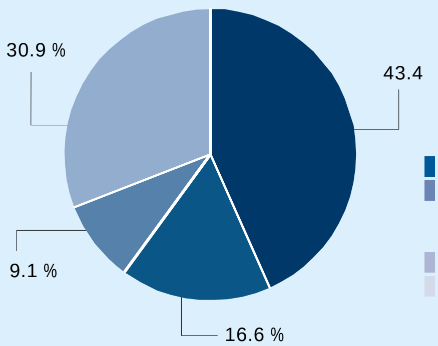
The Vienna stock exchange, unlike stock markets abroad, experienced a weak period with the introduction of the euro. At 25 January 1999 the Erste Bank share reached its low for the year of EUR 36.77. Both Erste Bank's share price and the index then staged a recovery in February and March. Subsequently, the escalation of the Balkan crisis in the second quarter of 1999 and expectations of interest rate rises dampened the performance of world equity markets. Nonetheless, in the first half of the year Erste Bank's share advanced 21.2%, clearly outperforming the ATX, which gained only 9.9%. In early July Erste Bank's share price attained its high for the year of EUR 57.25. In the third quarter, inflationary and interest rate fears continued to weigh on stock markets. Although its share price eased as a result, Erste Bank closed the third quarter up 5% on the end of 1998. This compared favourably to a 0.3% decline of the Austrian equity market as a whole.

A landmark action in 1999 was Erste Bank's bid for the lead-ing Czech retail bank in the context of the Czech Republic's privatisation programme. At end of September 1999 the Bank took up exclusive negotiations with the Czech government to buy a majority stake in eská spo itelna. The deal was agreed in February 2000. During the negotiation process large international investors in particular were hesitant to buy Erste Bank shares. An easing trading volume and lower demand in the fourth quarter, due in part to the forthcoming millennium transition, contributed to a significant price decline by late December. The closing price of EUR 44 on 29 December 1999 signified a decrease of 3.5% relative to the end of 1998.

Performance of Erste Bank share and ATX since December 1997 (indexed)



Ownership structure of Erste Bank



AVS	43.4 %
Strategic partners	16.6 %
Banks	5.7 %
Insurers	10.9 %
Savings banks	9.1 %
Free float	30.9 %

Key figures

Earnings per share 1998 [1])	EUR	3.02
Earnings per share 1999	EUR	3.74
Dividend per share 1999 [2])	EUR	1.24
Share price at 29 December 1999	EUR	44.00
High for 1999	EUR	57.25
Low for 1999	EUR	36.77
Stock exchange turnover 1999	EUR	1.34 billion
Market capitalisation at 29 December 1999	EUR	1.95 billion
Share price at 31 March 2000	EUR	45.00
Market capitalisation at 31 March 2000	EUR	1.99 billion

[1]) Restated IAS
[2]) Recommendation to annual general meeting

The following sources regularly prepare analyses of Erste Bank:

- ABN AMRO Bank (Germany) AG
- CA-IB Investment Bank AG
- Credit Suisse First Boston (Europe) Ltd.
- Dresdner Kleinwort Benson Research GmbH
- Fox-Pitt, Kelton
- Goldman Sachs Investment Research
- Lehman Brothers
- Raiffeisen Zentralbank Österreich AG
- Salomon Smith Barney
- Warburg Dillon Read

Erste Bank financial calendar

8 May 2000	Release of first-quarter results of 2000
11 May 2000	Annual General Meeting
16 May 2000	Ex-dividend day and dividend payment date
10 Aug. 2000[*])	Release of interim results of 2000
9 Nov. 2000[*])	Release of third-quarter results of 2000

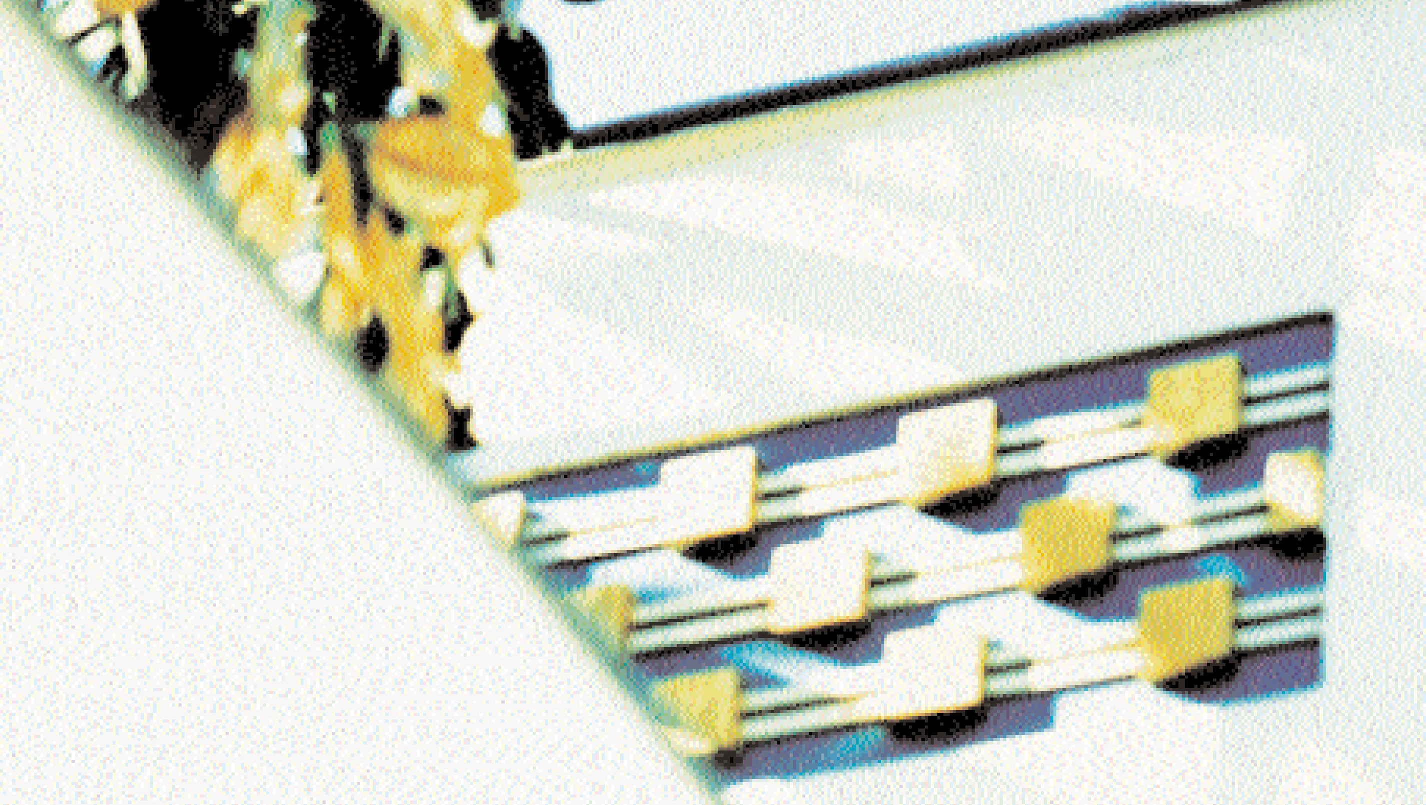
[*]) Preliminary date

Group Financial Highlights based on IAS

In million	EUR 1998	EUR 1999	ATS 1999	Change in %
Total assets	51,990	**52,443**	**721,631**	0.9 %
Loans and advances to credit institutions	13,109	**10,295**	**141,662**	(21.5 %)
Loans and advances to customers	26,467	**26,405**	**363,341**	(0.2 %)
Amounts owed to credit institutions	21,791	**20,571**	**283,063**	(5.6 %)
Amounts owed to customers	19,483	**19,533**	**268,780**	0.3 %
Debts evidenced by certificates	5,096	**6,360**	**87,516**	24.8 %
Risk-weighted assets pursuant to Section 22 Banking Act	26,488	**27,750**	**381,848**	4.8 %
Qualifying consolidated capital pursuant to Sections 23 & 24 Banking Act	3,176	**3,296**	**45,354**	3.8 %
thereof core capital (Tier 1)	1,611	**1,753**	**24,122**	8.8 %
Solvency ratio pursuant to Section 22 Banking Act in %	11.0 %	**10.8 %**		
thereof core capital ratio in %	6.1 %	**6.3 %**		
Net interest income	732.8	**736.3**	**10,132**	0.5 %
Risk provisions for loans	104.5	**132.5**	**1,823**	26.8 %
Fee and commission income	306.5	**322.4**	**4,436**	5.2 %
General administrative expenses	841.6	**821.7**	**11,307**	(2.4 %)
"Operating result"	330.6	**350.7**	**4,826**	6.1 %
Pre-tax profit for the year	206.4	**241.6**	**3,324**	17.1 %
Net profit after minority interests	133.4	**164.6**	**2,265**	23.4 %
Number of employees[1])	9,326	**8,416**		(9.8 %)
thereof in Austria	7,737	**6,944**		(10.2 %)
thereof abroad	1,589	**1,472**		(7.4 %)
Number of branches	450	**393**		(12.7 %)
Interest margin (net interest income in % of average total assets)	1.38 %	**1.34 %**		
Net profit after minority interests in % of average total assets	0.25 %	**0.30 %**		
Net profit after minority interests in % of risk-weighted assets (RWA)	0.50 %	**0.59 %**		
Cost-income ratio in %	71.8 %	**70.1 %**		
Return on equity (ROE) in %	10.5 %	**12.1 %**		
In EUR				
Earnings per share	3.02	**3.74**		23.8 %
Dividend per share [2])	1.16	**1.24**		6.9 %
Share price at 29 December 1999		**44.00**		
High for 1999		**57.25**		
Low for 1999		**36.77**		
Price-earnings ratio at 29 December 1999		**11.76**		
Stock exchange turnover in 1999 in billions		**1.33**		
Market capitalisation at 29 December 1999 in billions		**1.95**		
Ratings				
Moody's Investors Service				
Long-term		**A2**		
Short-term		**P1**		
Bank Financial Strength Rating		**C**		
FITCH IBCA				
Long-term		**A**		
Short-term		**F1**		
Individual		**C / D**		
Standard & Poor's				
Short-term		**A-2**		

[1]) Employees at year-end, stated as full-time equivalents

[2]) Recommendation for 1999 to annual general meeting



Annual Report 1999
Erste Bank

Erste Bank der oesterreichischen Sparkassen AG is Austria's oldest savings bank and the largest purely private sector bank listed on the Vienna stock exchange.

Erste Bank is the leading retail bank in Central Europe. Serving also as the lead bank of the Austrian savings bank sector, Erste Bank together with the savings banks has the strongest presence of any financial institution in its home market, which spans Austria and adjacent Central Europe. Next to its geographic focus, the Bank's strengths lie above all in the high quality of its products and services and the intense commitment of its employees.

Highlights 1999

January

▪ The conversion to the euro unfolds smoothly. Erste Bank and the savings bank sector are fully euro-ready at 5 p.m., 2 January 1999.

▪ Erste Bank Hungary launches a sweeping marketing and advertising campaign to introduce the “Erste Bank” premium brand in the Hungarian market. Within very little time Erste Bank achieves a brand awareness level of 65 %.

February–March

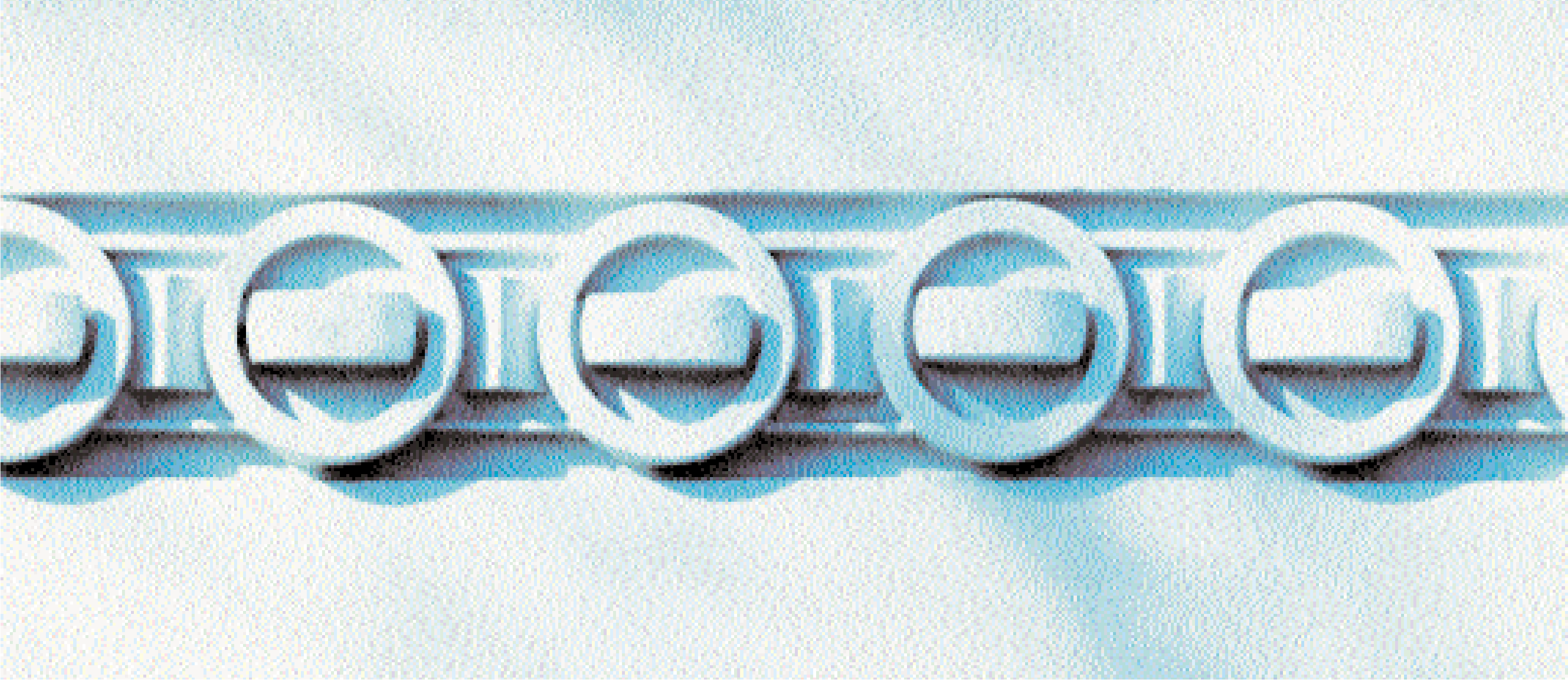
▪ In the first S&P Micropal Award for fund management to be handed out in Austria, Erste Bank’s investment fund company, Erste-Sparinvest, takes three first places in the category of ATS denominated bonds.

▪ The former GiroCredit subsidiary S Real Service merges with Erste Real retroactive to 1 January. Together the two companies own 2,550 properties with a combined value of EUR 261.6 million.

June

▪ Erste Bank pays a loyalty bonus of 5% to shareholders who have held their shares for the eighteen months since the initial public offering in December 1997.

▪ Erste Bank and the Austrian savings bank sector are prepared for the year 2000.



September

- Erste Bank delivers a non-binding bid for a 52 % interest in esk spo itelna. The Czech government invites Erste Bank to exclusive negotiations, which begin at the end of September.

October

- A joint marketing campaign with the savings banks goes live, advertising the new, comprehensive advisory services under the banner "GeldLeben" (MoneyLife).

- Erste Bank and Steiermärkische Bank und Sparkassen AG jointly acquire 94.3 % of Trgovacka banka d.d., Zagreb. This brings to two the number of Croatian regional banks in which the partners hold a majority stake.

- In the course of implementing the co-operation of the savings bank sector, 53 branches of Erste Bank are transferred to the regional savings banks. In return, Erste Bank obtains an interest of 26.9 % in Allgemeine Sparkasse Oberösterreich and 10 % in Kärntner Sparkasse; its ownership of Salzburger Sparkasse rises to 73.1 %.

November–December

- Erste Bank introduces a standardised ten-tier rating system for corporate customers. From 2000 the new rating scheme will also be adopted by the subsidiaries of Erste Bank Group and at the savings banks.

- The Czech national privatisation fund, then-owner of a 52 % stake in esk spo itelna, accepts Erste Bank's bid in principle. The Czech government approves the deal in February 2000.

- Erste Bank switches to International Accounting Standards (IAS).

- Erste Bank and the savings banks ensure a successful date transition to the year 2000.

Governing Bodies

Members of Supervisory Board

President
Herbert Schimetschek

Vice President
Walter Stauffer

2nd Vice President
Karl Korinek

Karl Blab

Dietrich Blahut

Klaus Braunegg

Dirk Bruneel

Elisabeth Gürtler

Werner Hutschinski

Theresa Jordis

Dietrich Karner

Heinz Kessler

Michael Krainz

Axel Freiherr von Ruedorffer

Jörg Schneider

Georg Winckler

Delegated by the Employee Council

Erika Hegmala

Ernst Lukesch

Hedwig Chmelik

Josef Kronemann

Heinrich Wildfellner
(until 20 October 1999)

Günter Benischek

Christine Brandstetter

Josef Bauer

Matthias Skerlan
(from 7 December 1999)

The Managing Board

Franz Hochstrasser
Member of the Managing Board

Responsible for the business units Treasury, Asset Management & Investment Banking and the service unit Securities Settlement

Andreas Treichl
Chairman of the Managing Board

Responsible for the business unit Savings Banks & Communications and the service units Marketing, Controlling & Risk Management, Legal Services, Auditing and the Secretariat to the Board

Elisabeth Bleyleben-Koren
Deputy Chairman of the Managing Board

Responsible for the business units Retail Sales (Vienna and provinces), Housing Finance, Corporate Banking, Key Accounts & Project Finance as well as the service unit Human Resources and Domestic Risk Management

Peter Ostermann
Member of the Managing Board

In charge of the service units Organisation & IT and Payments & Settlement as well as Procurement and Facility Management

Reinhard Ortner
Member of the Managing Board

In charge of the business units Central & Eastern Europe and International Business, as well as the service units International Credit Risk Management, Equity Investment and Accounting

(from left to the right)

Letter to shareholders

The year 1999 was the most pivotal to date for Erste Bank on its way to becoming the top retail bank in Central Europe. In all three strategic thrusts – the concentration on our core business, the extension of our home market to Central Europe, and the deepening of co-operation in the savings bank sector – we achieved the breakthrough that we have been working towards since our initial public offering in 1997. Erste Bank together with the savings bank sector will now be operating in a new market: From 2000 it will take its place in the top echelon of retail banks in Central Europe.

The past year's business performance of Erste Bank is the best in the history of the Group and its predecessor institutions. Investors, analysts and rating agencies have rewarded this achievement. Their approval pushed the share price higher upon the release of our preliminary results for 1999.

With an increase on the year of 6.1 % in the operating result and 23.4 % in Group net profit for the year (based on comparative figures for 1998 restated according to IAS), we have met our ambitious projections and moved another step closer to our goal of placing near the top of the European league tables in terms of profit. The cost reduction programme launched in early 1999 progressed as planned. It began to bear fruit in the 1999 financial statements and will unfold its full effect in year-2000 earnings. The success of our cost-saving drive is apparent from the fact that we already achieved in 1999 our target for 2000 of a return on equity of 12 % or more. Our acquisition of esk spo itelna will delay a further increase by one to two years at most. The reduction in general administrative expenses by 2.4 % during the year also improved our second central measure of performance: Our cost-income ratio for 1999 was little more than 70 %. After buying esk spo itelna, the Erste Bank Group set itself new financial targets. In 2002 the RoE of the enlarged Group is to reach at least 14 %, and the cost-income ratio is to be cut to 66 % or less.

"Sparkasse" as top brand stands for a new integrated and more efficient approach to banking services

In the past two years we have established a unique, innovative division of labour in the savings bank sector. Co-operation is the key that is bringing both sides economic benefits and has driven sustained growth in enterprise value. Beginning in 2000, the Austrian savings bank sector is presenting to customers a unified appearance and standardised product offering. Advertising and marketing are now undertaken jointly by the entire sector. This will increase the effectiveness of our budgets several-fold. For the first time our single marketing identity is giving the "Sparkasse" brand a substantial presence and clear positioning. This one brand, which has a new look but is rooted in time-honoured traditions, covers the entire Austrian market and has a market share of about 33 %.

The single-brand marketing in concert with the savings banks forms a central pillar of co-operation. Yet the scope of activities binding the sector together goes much further. The services offered to the whole sector range from training, to asset/liability and balance sheet management, to securities settlement, and are continually expanded.

Concentration on core competencies: Consistent implementation and innovation

We focus on our core businesses in order to make Erste Bank even stronger in its areas of strength, both in revenues and costs. On both fronts we accomplished much in 1999.

- Under the slogan "GeldLeben", or "MoneyLife", Erste Bank's new advisory concept arises from the principle of accompanying customers throughout their financial lives and covering all their needs, from home ownership, to insurance, to retirement planning, to building wealth and providing for children. This approach provides customers with a quality of advice that is beyond comparison to the existing offering. At the same time it permits increased cross-selling and thus creates significantly greater profit opportunities for the bank.
- To be able to serve these customer needs, we also reorganised our branch business in 1999. We segmented Erste Bank's network according to branch size and product range in order to cut distribution cost and make the most of existing customer relationships.
- Our sales figures bear out the effectiveness of this advisory approach. In the promising lines of investment funds, life insurance and retirement provision, we attained growth at rates well above the industry average.
- As the only wholly privately-owned bank quoted on the Vienna stock exchange, we naturally attach particular importance to developing the capital markets. Investment banking is one of our central areas of strength. Thus, among other achievements in 1999, Erste Bank managed the initial public offering of two new companies on the Vienna bourse. In the case of CyberTron Telekom AG, we were responsible for one of the most popular placements in Austrian history. And by orchestrating the going public of Libro AG, we added a new facet to the industry mix on the stock exchange.

Quantum leap in implementing Central Europe strategy

In formulating our home market strategy, our guiding conviction was that what we do best in a market of eight million people – Austria, we can equally well transfer to a growth market with a population of 30 million – the extended home market in Central Europe. We have now put this idea into practice: In 1999 we paved the way for a transaction that is expected to boost the Group's long-term value to its shareholders. After brief but intensive negotiations, Erste Bank reached agreement with the Czech government to buy a controlling stake in esk spo itelna, the second largest Czech bank. Overnight, the acquisition raised Erste Bank's market position to a new level: we now have a market share of more than 30% in the Czech Republic. esk spo itelna, as a savings bank rich in tradition and dominant in the retail market, is an excellent strategic match with Erste Bank and the Austrian savings bank sector. For the Czech government this structural fit was a key reason for choosing Erste Bank and the terms of the deal were seen as highly satisfactory for both parties.

Readying for a bigger league

At Erste Bank, every decision is taken with the aim of enhancing the Bank's value to its owners. With this end in mind, Erste Bank broke into a new league by buying esk spo itelna. We have grown larger. Now, in order to compete in a bigger league, we must become still better, more efficient, and swifter.

On the strength of our enhanced advisory services and the first class Austrian brand created in concert with the savings banks, we aim to cement our existing customers' loyalty and to attract new business.

- Not only in Austria but in our entire home market of Central Europe, we want to become the leading retail bank – the best bank for customers, shareholders and employees. In the Czech Republic, we must offer our services as professionally as we do in Austria, and must do it soon. esk spo itelna already symbolises first-rate security. If it as the country's strongest bank also acquires a reputation for outstanding quality of service, it will attain an exceptional market position.
- E-business: To the three strategies so successfully implemented to date, Erste Bank now adds a fourth. In the interest of taking advantage of new opportunities effectively and nimbly in all business units (and with our partners), we will exploit the capabilities of the Internet to the full and pursue a clear focus on e-business as our fourth core strategy.
- Innovation and creativity have become all-important competition factors in banking. This means that, as in any service business, our most valuable asset is our staff. In the coming years we will thus continue to invest in the training, customer focus and qualifications of our employees.

In the three years since going public we have achieved a great deal, both at the strategic level and in our operations. Our customer base, counting that of the savings banks and esk spo itelna, has exploded from 600,000 to almost 6 million. Additionally, we have improved our financial performance ratios. And as a quoted bank, we are keen to rapidly build our relations with international investors and analysts through timely, open and balanced communication with the financial markets. We undertook all these efforts with the goal of adding to our value as a company and attaining a size that will safeguard our independence for the years ahead. But the strength in our present numbers also enables us to invest in advanced, customer-friendly distribution. Not the Bank but the customer will henceforth determine the channel through which to buy our products and services: in a face-to-face meeting at the branch or at home, over the Internet, by mobile telephone, or at any one of various trading companies.

We at Erste Bank accept this challenge on behalf of our shareholders, our customers and our employees. The touchstones of our striving remain the Bank's value, its independence, and its service to customers.

Andreas Treichl
Chairman of the Managing Board

Management report

Management report

and financial review of Erste Bank Group

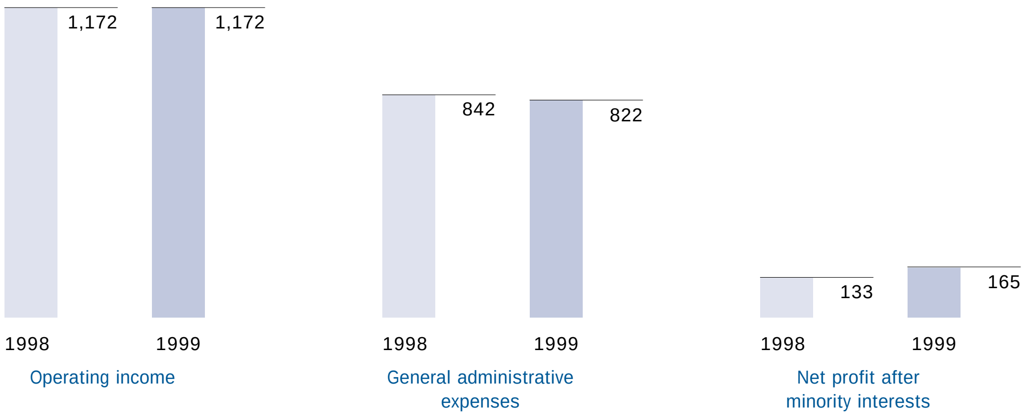
Consolidated results in brief

Operating income in 1999, consisting of net interest income, net commission income and net trading result, was steady at the previous year's level of EUR 1,172.4 million. Net interest income was up slightly. Net commission income climbed significantly and the net trading result declined.

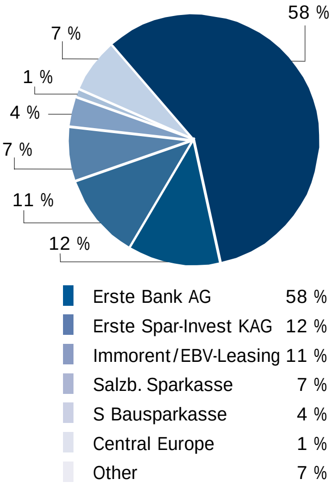
It should be borne in mind that the transfer in 1999 of some provincial Erste Bank branches to savings banks of provincial capitals – described later in this report – had an effect especially on net interest income and net commission income. Excluding these effects, the growth in operating income amounted to 4.0 %.

Operating income, general administrative expenses and net profit after minority interests

in EUR million



Share of largest group companies in 1999 pre-tax profit



Last year's general administrative expenses – encompassing personnel expenses, other administrative expenses and depreciation and amortisation of fixed assets – fell by 2.4 % to EUR 821.7 million. With the effect of the branch transfer stripped out, the total rose slightly by 1.8 %. This trend thus already shows early benefits of the cost reduction programme launched in 1999.

The cost-income ratio, adjusted according to IAS, eased from 71.8 % to 70.1 %

New allocations to risk provisions for loans and advances increased to EUR 28.0 million in 1999. Much of this additional provisioning came from an amount of EUR 44 million (contained in the item "other operating results") which arose from revaluation gains associated with the transfer of branches. This income from valuations, additionally to lower depreciation on equity holdings, was also the most important factor in the increase of other operating results in 1999.

After taxes on income, which resulted mainly from deferred tax liabilities, and after minority interests, the Group's net profit for 1999 was about EUR 164.6 million, an increase of 23.4 % over the comparative 1998 figure restated in IAS terms.

The return on equity (RoE) in 1999 increased to 12.1 % (1998 restated IAS figure: 10.5 %). Erste Bank thus reached its year-2000 RoE target of 12 % one year ahead of schedule. This feat is all the more remarkable as the change-over to IAS reduced the 1998 RoE from 11.6 % under the Austrian Commercial Act to the restated level of 10.5 % indicated above.

General information on the 1999 Consolidated Financial Statements

In 1999 the Group accounting of Erste Bank was converted to International Accounting Standards (IAS). The results of 1998 were restated in IAS terms and audited together with the 1999 financial statements. At the same time the Group accounting was converted from Austrian schilling to euro.

Also last year, Erste Bank's branches in the provinces of Carinthia, Salzburg and Upper Austria, were spun off and transferred to the respective savings banks of the provincial capitals in return for equity in these savings banks (additional equity in the case of Salzburger Sparkasse, which already formed part of the Erste Bank Group). These transfers limit the ability to compare individual items of the Balance Sheet and Income Statement to the 1998 results.

The divestiture of the branches to non-Group savings banks, which took effect 1 January 1999, involved assets on the balance sheet of EUR 1,021 million all told, including loans and advances to customers (gross before risk provisions) of EUR 1,036 million. As part of the transaction, dedicated risk provisions of EUR 58 million were transferred with the branches. On the liabilities side, the acquiring savings banks not part of the Erste Bank Group took over EUR 902 million of customer deposits.

In the 1999 Consolidated Income Statement, the transfer involved a disposal out of the Group of some EUR 50 million of operating income, including about EUR 36 million of net interest income and EUR 14 million of net commission income. On the other hand, the net interest income contains an amount of about EUR 4 million from the valuation at equity of the investments received in return. As well, general administrative expenses of about EUR 35 million were transferred to non-Group companies for 1999, while the absence of associated imputed risk expenses for 1999 is valued at EUR 8 million. On balance, the spin-offs of the branches thus have no material effect on 1999 net profit after minority interests.

In the review below, the rates of change excluding the spin-off effects are also indicated where it appears necessary.

Earnings performance

Operating income

Total operating income (the sum of net interest income, net commission income and net trading result) remained at the previous year's level of EUR 1,172.4 million. After adjusting for the effects of the branch spin-offs the figure showed an increase of 4.0%.

A particularly strong component was net commission income, which climbed by 5.2% to EUR 322.4 million despite the divestiture of branches. The adjusted growth rate was 9.8%.

As the table below illustrates, the fee and commission surplus has increased as a share of total operating income as well, while the volatile net trading result made a smaller relative contribution than in the previous year.

Composition of operating income

in EUR million	1998	Share in operating income	1999	Share in operating income
Net interest income	733	62.5 %	736	62.8 %
Net commission income	306	26.1 %	322	27.5 %
Net trading result	133	11.4 %	114	9.7 %
Operating profit	**1,172**	**100.0 %**	**1,172**	**100.0 %**

Net interest income

Net interest income comprising interest and similar income and expenses and income from equity holdings (including the pro rata share in the earnings of associates) improved by 0.5% to EUR 736.3 million despite the disposals of branches. The increase net of spin-off effects was 4.8%.

This performance was achieved amid the negative impact of intense price competition, notably in lending business, and of the absence of attractive investment opportunities due to persistently slack demand for credit in Austria. The weak demand also affected some activities of subsidiaries, especially the building society business, and at mid-year could be overcome only by pricing adjustments.

In contrast, the very satisfactory trend in international business contributed positively to net interest income.

Due to an intra-year surge in interbank business, average total assets reached EUR 54.8 billion, in spite of the disposal of provincial branch business retroactive to 1 January 1999. This marks a significant increase on 1998. As interest margins in interbank business are low while the divested provincial branch business consisted chiefly of high-margin lending to customers, the Group's overall net interest margin inched down 0.04 percentage points to 1.34%.

Net commission income

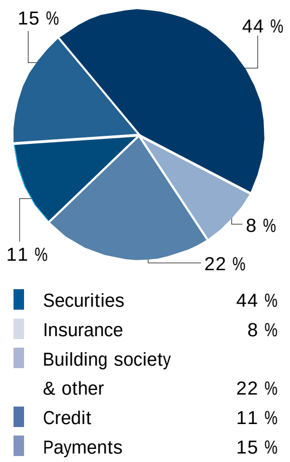
The branch spin-offs notwithstanding, net commission income in 1999 was boosted by 5.2% to EUR 322.4 million. Excluding the impact of the spin-offs, the rate of growth amounted to 9.8%.

Thanks to customers' enduring preference for moving to higher-yielding investments and the growing emphasis on private provision for retirement, Erste Bank saw growth in fee and commission income, especially from securities and insurance business.

Composition of net commission income

in EUR million	1998	1999	Change in %
Credit business	34.0	36.8	8.2 %
Payment services	47.0	47.7	1.4 %
Securities business	137.9	142.9	3.6 %
Insurance business	21.0	25.4	21.0 %
Building society and other business	66.6	69.6	4.7 %
Net commission income	**306.5**	**322.4**	**5.2 %**

Net commission income 1999



Net trading result

The net trading result comprises price gains and losses from securities business, interest rate and equity derivatives and foreign exchange instruments. It also includes interest and dividend income on trading positions and interest expenses from funding these positions.

In 1999 the net trading result declined by 14.4% to EUR 113.7 million. In securities trading, where the performance in 1998 had been above-average, a negative effect was exerted in 1999 by the rise in interest rates in particular. The showing of the foreign exchange business was weighed down by the introduction of the euro. Meanwhile, the trade in interest rate derivatives pulled up the net trading result.

General administrative expenses

General administrative expenses include personnel expenses, other administrative expenses, and depreciation and amortisation of fixed assets. This item developed as follows:

Composition of general administrative expenses

in EUR million	1998	Share of general administrative expenses	1999	Share of general administrative expenses
Personnel expenses	513	60.9 %	488	59.4 %
Other administrative expenses	245	29.1 %	255	31.0 %
Depreciation and amortisation of fixed assets	84	10.0 %	79	9.6 %
General administrative expenses	**842**	**100.0 %**	**822**	**100.0 %**

The year 1999 was thus marked by a net decrease of 2.4 %, with the branch spin-offs making themselves felt in this item as well. Excluding this effect, general administrative expenses grew marginally by 1.8 %.

Personnel expenses contracted by a substantial 4.8 %, a consequence primarily of the staff reduction.

The number of employees (in terms of full-time equivalents, excluding staff on parental leave) in the Erste Bank Group as redefined according to IAS exhibited the following trend:

Number of employees

	31 December 1998	31 December 1999
Austria	7,737	6,944
Abroad	1,589	1,472
Total	**9,326**	**8,416**

An additional 288 employees worked at non-bank subsidiaries at the end of 1999, above all in the hotel and leisure industry. The employment costs for this staff are included not in general administrative expenses but in the item “other operating results”, as is the income of these non-banks.

As part of the spin-offs of branches in 1999, 311 branch employees transferred to regional savings banks that are not fully consolidated in the Erste Bank Group. Employees transferred to Salzburger Sparkasse had no effect on consolidated Group numbers.

In 1999 the pension rights of the active, pension-entitled members of the staff of S Bausparkasse AG were transferred to the BVP pension fund, as was done in 1998 for the staff of Erste Bank AG and Salzburger Sparkasse Bank AG.

Other administrative expenses expanded by 3.9 % (or by an adjusted 9.2 %), with spin-off-adjusted increases especially in IT and consulting expenses. Resources planned for office space, supplies and payment processing were shifted in favour of IT investments.

Depreciation and amortisation of tangible fixed assets was 5.7 % lower than one year earlier.

Costs and investments related to the 1997 merger of Die Erste and GiroCredit continue to play a large role in general administrative expenses, notably in other operating expenses and in depreciation and amortisation.

The Erste Bank Group's restated IAS-based cost-income ratio was trimmed from 71.8 % in 1998 to 70.1 %. The cost reduction project begun in 1999, which will unfold its full effect in 2000, has thus paid early dividends in 1999.

Operating result and cost-income ratio

in EUR million	1998	1999	Change in %
Operating income (Net interest income, net commission income and net trading result)	1,172	1,172	0.0 %
General administrative expenses	(842)	(821)	(2.4 %)
Operating result	330	351	6.1 %
Cost-income ratio	71.8 %	70.1 %	0.0 %

Net new **risk provisions for loans and advances** (additions less releases) amounted to EUR 132.5 million. This figure includes direct write-offs of loan losses. International business accounted for about 22 % of the net additions to risk provisions. Not included are the changes (netted in net interest income) in value adjustments of interest receivables. The increase in the net new allocation compared to the prior year (1998: EUR 104.5 million) results primarily from the fact that a valuation gain of EUR 44.0 million (included in the item "other operating results") from the spin-off of the provincial branches was used largely to stock up the risk provisions. The additions to and write-backs of other risk provisions not pertaining to loans and advances are shown under "other operating results". Additional information on risk management and the risk situation is supplied in the Notes.

Other operating results include (additionally to the above-noted changes in risk provisions for non-lending purposes and to the valuation gain on the spin-offs of provincial branches) expenses and gains on valuation and sale of investments, securities held as investments available for sale and securities held as financial investments. The detailed breakdown of other operating results is found in the Notes.

In consequence, pre-tax profit for 1999 increased by 17.0% in 1999, to EUR 241.5 million. The divestiture of the provincial branches had no substantial net effect on this result.

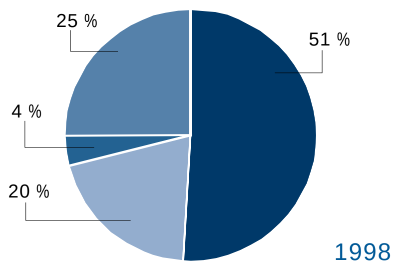
Taxes and earnings

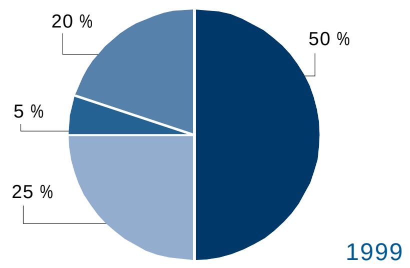
Erste Bank and some of its main subsidiaries (foremost among them S Bausparkasse AG, Immorent AG and Erste-Sparinvest KAG) form a single entity for tax purposes. This entity itself was exempt from Austrian corporation tax for 1999 by virtue of tax losses carried forward. This will be equally true of the 2000 financial year.

Among the items included in **Taxes on income** are taxes payable by smaller Austrian subsidiaries, foreign income-related taxes and the deferred tax assets and deferred tax liabilities which IAS require to be formed. In 1999 the tax rate for the Group as a whole was approximately 20%.

Net profit after minority interests for 1999 reached about EUR 164.6 million, a result 23.4% higher than the restated IAS figure of 1998.

Balance sheet structure





1998

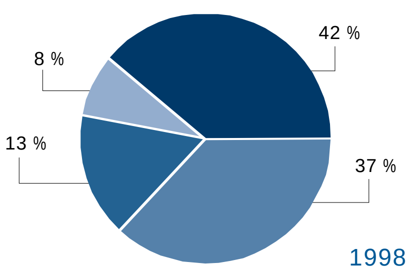
Loans and advances to credit institutions	25 %
Loans and advances to customers	51 %
Financial investments and other securities	20 %
Other assets	4 %

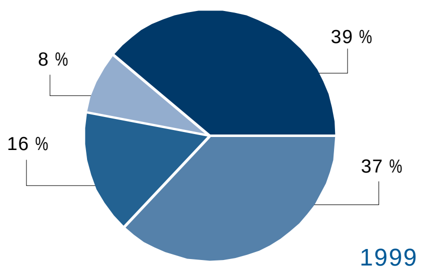
1999

Loans and advances to credit institutions	20 %
Loans and advances to customers	50 %
Financial investments and other securities	25 %
Other assets	5 %

Assets

in EUR million	1998	1999	Change in %
Loans and advances to credit institutions	13,109	10,295	(21.5 %)
Loans and advances to customers	26,467	26,405	(0.2 %)
Financial investments and other securities	10,437	13,192	26.4 %
Other assets	1,977	2,551	29.1 %
Total assets	**51,990**	**52,443**	**0.9 %**





1998

Amounts owed to credit institutions	42 %
Amounts owed to customers	37 %
Debts evidenced by certificates and subordinated capital	13 %
Equity and other liabilities	8 %

1999

Amounts owed to credit institutions	39 %
Amounts owed to customers	37 %
Debts evidenced by certificates and subordinated capital	16 %
Equity and other liabilities	8 %

Liabilities

in EUR million	1998	1999	Change in %
Amounts owed to credit institutions	21,791	20,571	(5.6 %)
Amounts owed to customers	19,483	19,533	0.3 %
Debts evidenced by certificates and subordinated capital	6,861	8,328	21.4 %
Equity and other liabilities	3,855	4,011	4.1 %
Total liabilities	**51,990**	**52,443**	**0.9 %**

Total assets grew by 0.9 % to EUR 52.4 billion in 1999 including the branch spin-offs, or by 3 % after adjusting for the branch disposals.

The highest asset growth was registered in securities holdings (contained in the items trading assets, investments available for sale, and financial investments), which jumped by 27.5 % to EUR 12.2 billion.

Loans and advances to customers were the item most heavily affected by the provincial branch disposals, yet contracted by only 0.2 % (adjusted growth: 3.7 %).

Risk provisions for loans and advances – now disclosed as a separate line item on the balance sheet – were EUR 965 million, down on the 1998 level (EUR 1,198 million) in spite of the additions made in 1999. One reason is that in the course of the branch spin-offs, value adjustments in the amount of EUR 58 million were transferred to savings banks outside the Erste Bank Group. The other is that a substantial amount of written-down loans which for several years had been the subject of insolvency proceedings were written off by utilising risk provisions. The recognition of these impairment losses does not detract from the legitimacy of Erste Bank's claim to the amounts in question. As noted above, additional information on the risk situation is presented in the Notes.

On the liabilities side, the strong issuance activity lifted debts evidenced by certificates (including subordinated capital) by a total of about 21 % to EUR 8.3 billion.

In sharp contrast, loans and advances to customers, an item significantly affected by the spin-offs, changed little on the year. The adjusted growth rate was 4.9 %.

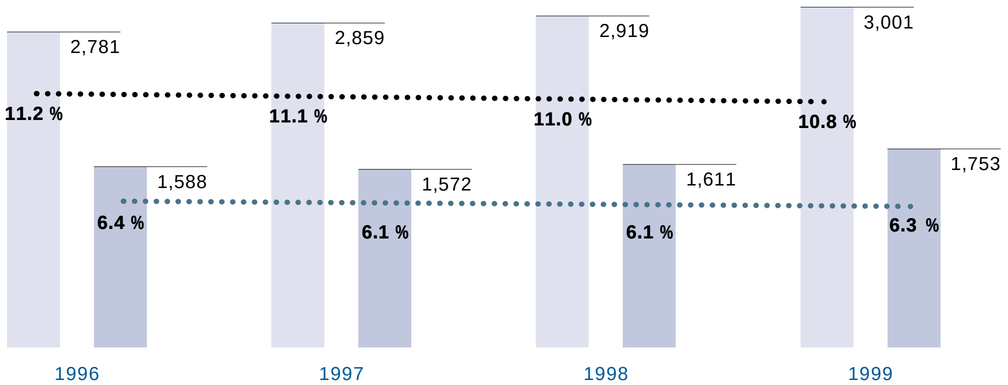
In line with the trend on the assets side, funding through interbank deposits taken was down, falling by 5.6 % to EUR 20.6 billion.

Shareholders' equity (including net profit after minority interests) advanced by EUR 122 million or 9.3 % in 1999, to EUR 1,436 million (based on restatement of the 1998 figure according to IAS).

The RoE, calculated as the ratio (in per cent) of net profit after minority interests to average equity less the value of the average amount of own shares held, climbed from last year's restated figure of 10.5 % to 12.1 %. The target for 2000 of a RoE of at least 12 % was thus reached early, in 1999.

The disproportionately high increase in minority interests is primarily attributable to two circumstances: the issue of EUR 100 million of qualifying Tier 1 capital in February 1999 via a Group company, and appreciable earnings growth of companies not fully consolidated.

Qualifying capital

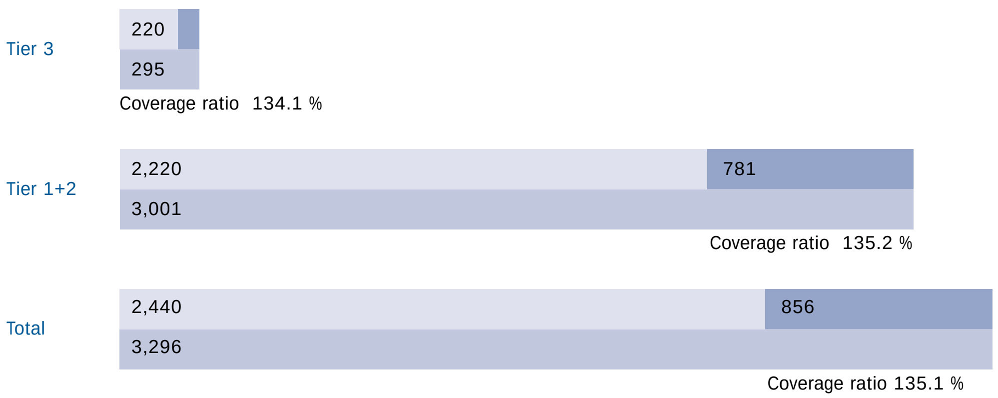


Qualifying and core capital under the Austrian Banking Act

in EUR million

Qualifying capital (Tier 1+2)
Core capital (Tier 1)
Solvency ratio
Core capital ratio

Total qualifying capital under the Austrian Banking Act amounted to EUR 3,295 million at 31 December 1999. This included the requirement for short-term subordinated capital to cover the trading book according to Section 22 b Banking Act, including open foreign exchange positions.



Required and actual qualifying capital

in EUR million

Actual amount
Required amount
Surplus

The legal minimum requirement was EUR 2,440 million; the coverage ratio was thus 135 %. Forming part of this amount, the requirement for the trading book including open foreign exchange positions stood at EUR 220 million at the end of 1999.

The risk-weighted basis according to Section 22 Banking Act (the capital measurement basis for the Erste Bank Group) increased by 4.8 % to EUR 27,750 million.

At 31 December 1999 the core capital according to the Banking Act stood at EUR 1,753 million; the core capital ratio amounted to 6.3% (1998: 6.1%) and the solvency ratio was 10.8 % (1998: 11.0 %), well above the statutory minimum requirement of 8%.

Outlook for 2000 and recent events

At 1 March 2000, Erste Bank signed the agreement to acquire 52 % of the equity (56 % of voting rights) of esk spo itelna, the savings bank that is the Czech Republic's second largest financial institution. This moved Erste Bank much closer to its strategic goal of becoming Central Europe's leading retail bank.

The integration of esk spo itelna will demand substantial resources and will involve charges for financing and the necessary restructuring. Initially these costs will exceed revenues from the Czech savings bank. However, following the restructuring year of 2000, during which earnings are unlikely to increase significantly, we expect profit growth to resume in 2001.

The acquisition of esk spo itelna will mean a delay of, at most, one to two years in achieving Erste Bank's financial targets for 2000: increasing the RoE to at least 12 % (this was accomplished ahead of schedule, in 1999) and reducing the cost-income ratio to between 65 % and 67 %.

Erste Bank has set itself new financial targets. In 2002 the RoE is to reach at least 14 % and the cost-income ratio is to be cut to 66 % or less.

In another recent development, negotiations have been initiated with Steiermärkische Sparkasse over the transfer of Erste Bank's Styrian branches in return for equity in Steiermärkische Sparkasse.

To the three strategies successfully implemented to date, Erste Bank now adds a fourth. In the interest of taking advantage of new opportunities effectively and swiftly in all units, we will exploit the capabilities of the Internet to the full and pursue a clear focus on e-business as our fourth core strategy. A significant role will be played by a newly founded subsidiary which will offer a regional on-line brokerage for the Central European region by end 2000.

Vienna, 3 April 2000

The Managing Board

Andreas Treichl
Chairman

Elisabeth Bleyleben-Koren
Deputy Chairman

Reinhard Ortner
Board Member

Franz Hochstrasser
Board Member

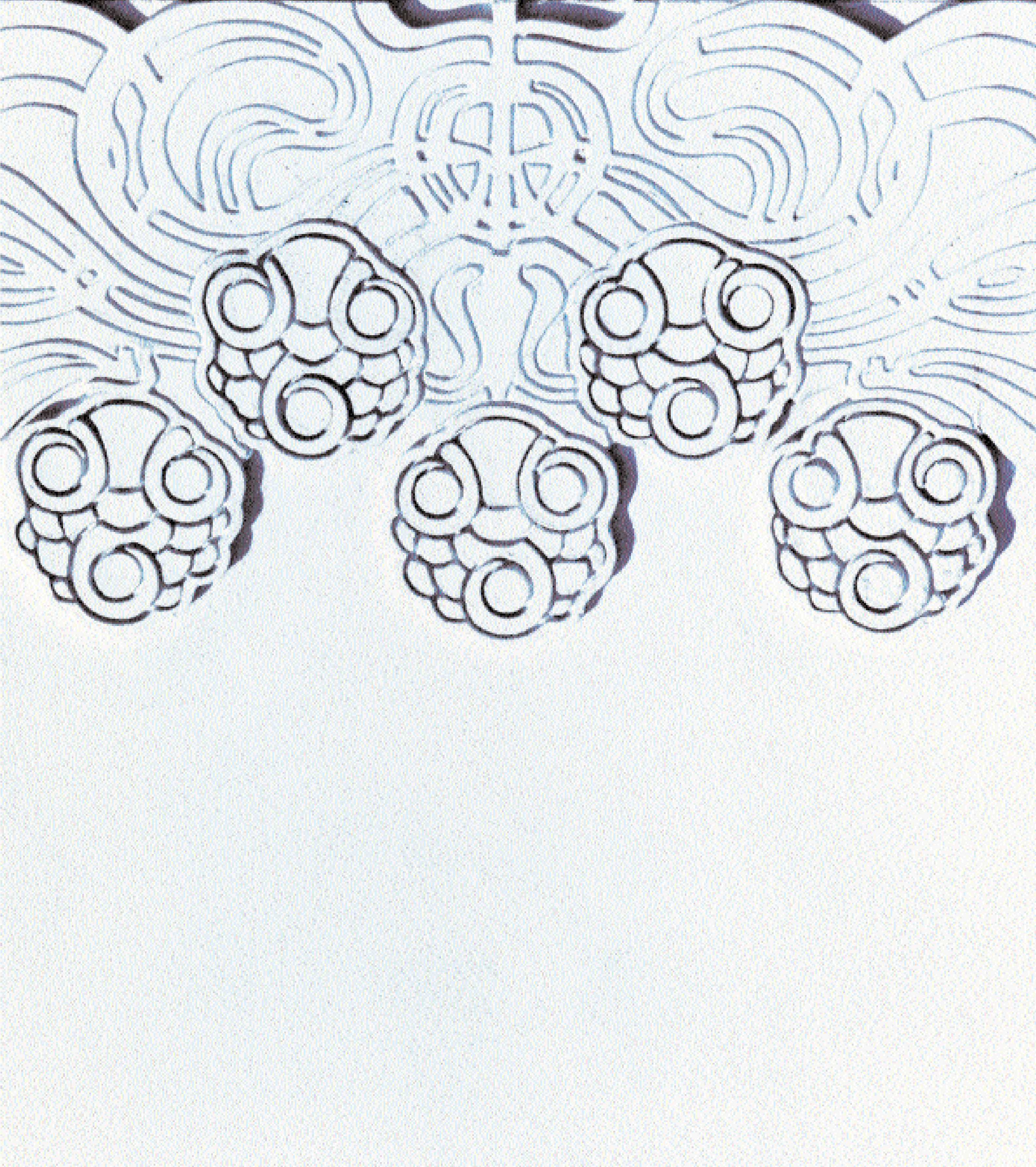
Peter Ostermann
Board Member

Performance of Erste Bank units based on IAS segmentation

In this annual report, Erste Bank switches from Austrian accounting standards based on the Austrian Commercial Code and Austrian Banking Act, to the International Accounting Standards generally accepted internationally. The Bank thus offers its shareholders enhanced transparency in the form of another important tool for the analysis of its performance and position. To provide a comparable reference point, the figures for 1998 were restated in IAS terms.
In addition to providing considerably more information concerning the balance sheet, income statement and risk situation, the Group result is also reported along the lines of core business segments:

- Retail and Real Estate (activities in retail banking, small and medium-sized corporate customers, and real estate finance in Austria and Central Europe)
- Asset Gathering (investment funds, portfolio management, insurance business)
- Large Corporate Customers (key accounts in industry, trade and service sectors as well as international business outside Central Europe)
- Trading and Investment Banking (investment banking, treasury, balance sheet management)
- Corporate Centre (fixed assets, other equity holdings, consolidating items)

Additionally, this annual report also segments the Group result by region and describes the effect of the successful savings bank strategy on the bank's performance. However, because of the changeover to the IAS structure, the segment data cannot be compared directly to the financial statements of previous years.



Retail and Real Estate

The Retail and Real Estate segment comprises four business units: Retail, Small and Medium-Sized Corporate Clients (SME Clients), Real Estate Finance and Central Europe. All form part of Erste Bank's core business, and hence are integral to one of its three central strategies. The acquisition of the majority interest in esk spo itelna will open up new opportunities in the Retail and Real Estate segment.

	in %	1999 in EUR million
Attributed equity		575.1
% of equity	42.3 %	
Risk-weighted assets		12,197.0
Pre-tax profit		45.5
% of Group pre-tax profit	18.8 %	
Cost-income ratio	85.7 %	
RoE based on pre-tax profit [1])	7.9 %	

[1]) Group RoE based on pre-tax profit: 17.8 %

Retail

Repositioning of retail business is complete

In 1999 the restructuring of the retail banking business, a project defined in the previous year, was methodically implemented. The concept involves segmenting the branches by their size and range of services. The aim of this differentiation is to reduce the cost of retail distribution and make the best possible use of the existing customer relationships.

Classification of Erste Bank AG branches

	Number of branches at 31 December 1999
Advisory centres	61
Branches	51
Sub-branches	25
Service outlets	70
Total	**207**

The number of branches of Erste Bank AG was reduced sharply from 270 to 207, a difference of 23 %. As part of segmenting the branch network, Erste Bank transferred 53 branches to the regional savings banks of Upper Austria, Salzburg and Carinthia and acquired equity in those banks in return. One implication was that the savings banks took over about 400 employees of Erste Bank. Thirteen outlets in Salzburg with approximately 90 employees were signed over to Salzburger Sparkasse and thus remained in the Erste Bank Group. In the rest of the retail network, eleven locations were cut by combining branches. Together with the branches of Salzburger Sparkasse Bank AG (in which Erste Bank holds a 73.1% interest) and Sparkasse Mühlviertel-West Bank AG (of which Erste Bank is the largest shareholder, with a 40% tranche) the Erste Bank Group operates at 304 locations in Austria.

The retail concept of Erste Bank

The retail activities revolve around mid-market consumers, in particular professionals, and small and medium-sized enterprises. In these customer segments, Erste Bank excels in advisory quality and know-how.

New financial planning tools are a hit

A breakthrough in advisory quality in 1999 was made possible by two new advisory tools: a combined needs analysis and financial plan, with the option of a simpler or more sophisticated version. The requirements and interests of customers are captured in a systematic fashion. This facilitates needs-oriented cross-selling. Moreover, the system gives rise to cost savings by separating two steps: intensive advisory activity and the processing of transactions, with the latter shifted to more cost-efficient distribution channels (self-service, Net banking and call centres). Even in its first year of application, the new concept caught on extremely well. 73% of customers bought products of the Erste Bank Group after use of the more elaborate financial planning tool, and 65% did so after application of the simpler one.

Some savings banks also offered the new advisory concept by end 1999. A standardised but extensive training regime for employees is intended to guarantee advisory services of the highest quality across the sector. In 2000 the main priority lies in developing a nation-wide distribution concept.

Small and Medium-Sized Corporate Customers

The SME Customers unit serves businesses with revenue of about EUR 0.7 million to EUR 73 million. In 1999 it had almost 7,400 customers, some 5% more than a year earlier. In the SME unit, the emphasis in 1999 was likewise placed on measures to raise the profitability of existing and new business in order to meet the earnings targets of the Group. The earnings enhancement programme has strengthened the trend away from the interest-margin-dependent activities in favour of earnings from the services business, with products of Erste Bank subsidiaries (among them EBV-Leasing, Immorent, Erste-Sparinvest and S-Versicherung) figuring prominently.

The unit consolidated its market position last year with a market share of 15% of customers and 8% of large accounts. Erste Bank's position is especially strong with companies at the upper end of the revenue spectrum.

Intermarket Factoring Bank AG
(Erste Bank shareholding: 54 %)

Double-digit growth in factoring

The Intermarket Group offers its factoring finance and forfaiting services not only in Austria but also through its subsidiaries in Central Europe. Total factoring revenue of the Intermarket Group climbed by 10 % last year to EUR 1.4 billion. The forfaiting business of the Czech offshoot earned an additional EUR 58.1 million of revenue. The principal driver of growth was the promising business in the Czech Republic, Hungary and Poland. In each of these countries Intermarket owns 50 % of a local factoring company.

EBV-Leasing Ges.m.b.H. & Co. KG
(Erste Bank shareholding: 100 %)

Sales strength produces outperformance

The EBV operates the Group's flourishing automotive leasing business. As the third largest Austrian car-leasing firm, EBV is the market leader in distribution via banks and insurance companies, and further strengthened this position in 1999. The new business volume in 1999 stood at EUR 167.1 million. Compared to 1998 this represents an increase of EUR 36.3 million, or 28 %, while the industry averaged 21 %. The sales power of the currently 47 co-operating savings banks explains some of this outperformance. All told, leasing contracts numbered more than 21,000 at year-end. Under present market conditions it appears realistic to expect continued growth in revenue. The savings bank channel in particular should yield additional growth.

Real Estate Finance

The Real Estate Finance unit caters for non-profit and commercial housing developers, property management companies, real estate brokers and home-builders.

New construction activity saw a broadly based, pronounced decline in 1999 as a result of mounting overcapacity. Defying the market trend, Erste Bank maintained its level of new business in this market segment at the previous years' level of about EUR 1.45 billion. Foreseeing the downtrend in financing new construction, the Bank concentrated its product innovation on refurbishment of condominiums and on tax-optimised finance solutions for private and commercial real estate. Thanks to popular products and to acquisitions, private mortgage finance made an especially strong showing. The portfolio in this business expanded to EUR 283.4 million, virtually doubling the previous year's volume of EUR 145.8 million.

The real estate finance activities as a whole are focused chiefly on publicly subsidised projects, both in new building and refurbishment. Ninety-five per cent of lending is secured by mortgages.

S Bausparkasse

(Erste Bank shareholding: 100 %)

Few financial years have brought external structural changes as profound and historic as those witnessed in 1999. The four-decade-old building society system was reformed in mid-year. The new system provides for flexible market rates both on deposits and loans without sacrificing the accustomed security and stability of saving through building societies.

Structural change has positive impact on lending business

In mortgage lending, S Bausparkasse accounts for more than one-third of the Austrian market, thus remaining the market leader ahead of its four domestic competitors.

Until the reform of the system, legal restrictions enforced a delay before building societies could adjust interest rates and products to market conditions. In the second half of the year, after interest rates were brought into line with the market, the trend in mortgage lending turned spectacularly upward. Although the previous year's lending volume proved out of reach, the total loan book of EUR 688 million was nonetheless substantial, even relative to the prior year's level of EUR 838.6 million. In 1999 we signed more than 247,000 new building society contracts, about 15% fewer than in the record year 1998.

Classic saving through building societies is highly sensitive to interest rate movements. The newly-found ability to adjust rates more quickly to market levels promises both a recovery in deposit-taking and lasting good performance in lending.

S-Wohnbaubank

(*Erste Bank shareholding: 76.5 %)*

Prevailing against extremely fierce competition

By issuing tax-favoured bonds, S-Wohnbaubank raises long-term funding at stable interest rates for social-welfare and other municipal housing. In the face of severe competition, the operations of S-Wohnbaubank secured the continued success of Erste Bank's active market strategy in high-volume housing construction. The collaboration with the Austrian savings banks is proving very fruitful, as they are able to combine affordable refinancing with their access to regional markets and are increasingly profiting from publicly subsidised housing business.

In 1999 S-Wohnbaubank issued bonds worth about EUR 43.6 million. This differs little from the approximate average of the past years. The 35 bonds issued by S-Wohnbau since its inception in 1994 amount to a collective volume of more than EUR 356 million, giving the subsidiary a market share of 15%.

Savings banks

Contribution of savings banks to pre-tax profit

	Retail & Real Estate	Large Corporate Customers	Asset Gathering	Trading & Investment Banking	Corporate Centre	Total
in EUR million	3.9	6.8	12.9	7.7	0.0	31.4
in %	8.6	7.3	22.1	21.1	0.0	13.0

Savings bank strategy of Erste Bank – status and outlook

Synergies in earnings and costs

The savings bank strategy of Erste Bank is based on Erste Bank's role as the sector's lead bank and central product development and production facility. The close co-operation with independent savings banks and the returns-oriented allocation of resources and responsibilities creates synergies for all partners. This is true both of cost reductions and revenue growth.

The sector is co-operating in four areas:

- Development of an efficient integrated system for product development and service provision
- Projection of a unified identity through one-brand strategy
- Standardisation of business and marketing strategies for retail and corporate banking
- Development of common, performance-oriented management systems

The joint activities are underpinned by specific financial objectives, including the aim to grow the sector's retail market share at least 2 percentage points within the next three years.

Co-operation with savings banks

Intensive teamwork in sector-wide services

In the year past the Austrian savings bank sector achieved a "first" by carrying out a joint marketing campaign and establishing a common logo. The new logo contains the traditional red letter "S" and, in blue lettering, the term "Sparkasse" or "Erste Bank". These steps ensure the optimum use of synergy effects in marketing as well as considerably higher recognition for the products of the savings bank sector.

The paradigm shift from a product-centred to a customer-oriented service approach was consummated at more than half of the savings banks. The partners also completed the concept for a joint Internet presence and conducted a successful pilot project. Also, the finishing touches were put on plans for the delegation of the savings banks' securities settlement to Erste Bank. Another area of co-operation between Erste Bank and the savings banks is asset-liability management.

Nearly half of the savings banks in Austria have taken advantage of our consulting in connection with balance sheet management – a clear sign of their growing trust in Erste Bank.

In 2000 the outsourcing of securities settlement to Erste Bank is to increase. The first concrete steps will also be taken to combine the sector's payments processing. Additionally, early pilot projects will be launched to simplify back office operations for money dealing and foreign exchange trading.

Reducing overlap between retail networks

Branch networks are being co-ordinated throughout sector

In 1999, through the transfer of Erste Bank branches in the provinces of Upper Austria, Salzburg and Carinthia to the corresponding regional savings banks, the sector laid a cornerstone in its joint strategy by reducing the geographic overlap between the savings banks' networks. The clear boundaries minimise intra-sectoral competition and promote collective gains in market share. The back office and internal support functions are being bundled within Erste Bank. In return for its branches, Erste Bank received equity in the recipients (increasing its existing stake in the case of Salzburg). A total of 53 branches were transferred to the savings banks of the provincial capitals, with retroactive effect from 1 January 1999.

Salzburger Sparkasse Bank AG

(Erste Bank shareholding: 73.1 %)

The total assets of regional savings bank Salzburger Sparkasse Bank AG, counting the branches taken over by Erste Bank, climbed to some EUR 3.6 billion in 1999.

With significant growth ahead of targets in securities business, building society contracts and insurance commissions, Salzburger Sparkasse made an excellent contribution to the Group result.

Salzburger Sparkasse concentrates on the same activities as Erste Bank itself. In asset management, its primary strategy is to continue to shift monies into higher-yielding investment products. In corporate business, Salzburger Sparkasse is stepping up its emphasis on small and medium-sized customers. In housing finance, it seeks to become the number-one lender in the province of Salzburg both in retail and corporate markets.

Other Erste Bank holdings in savings banks at end 1999

in EUR million	Shareholding in %	Total assets	Equity
Allgemeine Sparkasse Oberösterreich Bank AG	26.9	5,760.7	264.6
Kärntner Sparkasse AG	10.0	2,305.7	109.2
Sparkasse Mühlviertel-West Bank AG	40.0	429.9	32.4
Sparkasse Voitsberg-Köflach Bank AG	5.8	389.6	29.3
Sparkasse Kremstal-Pyhrn AG	24.0	385.0	23.7
Sparkasse Bregenz Bank AG	25.0	299.3	14.7
Sparkasse der Stadt Knittelfeld AG	9.0	244.5	25.4
NÖ Sparkasse Hainburg Bank AG	26.0	229.1	26.8

Central Europe

Austria's neighbours – a market of the future

One of the three strategic goals of Erste Bank is to establish an extended core market in Central Europe. Erste Bank regards as its Central European target markets the regions bordering on Austria: the Czech Republic, Hungary, Croatia as well as Slovenia and Slovakia. Central Europe is so significant for the future growth of Erste Bank primarily because banking market penetration in these target regions is still relatively low compared to Austria. The objective for Erste Bank in this greater home market is to gain a leading position with retail customers and small and mid-sized commercial clients, as well as in asset management and mortgage lending.

From the outset, Erste Bank had defined the Czech Republic as a principal target country for developing a nation-wide branch outlet. On 1 March 2000, after intensive negotiation with the Czech government, Erste Bank thus reached a milestone when it signed the agreement to buy 52 % of esk spo itelna, the Czech Republic's only savings bank and its second largest bank. The exemplary match between the two banks in terms of structure and strategy was the decisive factor in clinching the deal both for Erste Bank and the Czech government.

esk spo itelna has about 15,000 employees and 850 branches and thus roughly equals the Austrian savings bank sector in size.

This acquisition offers Erste Bank a unique opportunity to establish itself as the Czech Republic's leading retail bank and gain access to more than 3 million customers. It positions Erste Bank as the top provider of financial services to middle- and high-income retail customers and small to medium-sized corporate clients in Central Europe.

Further equity holdings of Erste Bank in Central Europe

Country	Erste Bank subsidiary	Shareholding in %	Key figures/description
Hungary	Erste Bank Hungary Rt.	98.6 % [1]	Total assets approx. EUR 625 million; 56 branches
Czech Republic	Erste Bank Sparkassen (CR) a.s.	66.7 %	Total assets approx. EUR 725 million; 7 branches
Croatia	Bjelovarska banka d.d.	37.8 %	Total assets approx. EUR 216 million; 19 branches
Croatia	Trgovacka banka d.d.	48.7 %	Total assets approx. EUR 61 million; 8 branches
Slovakia	Istrobanka a.s.	10.0 %	Total assets approx. EUR 619 million 29 branches
Poland	Bank Rozwoju Eksportu S.A.	2.0 %	Total assets approx.EUR 3 billion; 23 branches

[1]) after capital increase in 1999

Erste Bank Hungary Rt. – Hungary

(Erste Bank shareholding: 98.6 %)

The 56 branches of Erste Bank Hungary Rt. (EBH), with a current staff of about 930, constitute Hungary's fifth largest retail network. The Bank has presence in all key commercial centres in Hungary. With total assets at end-1999 of some EUR 625 million, EBH ranks among the country's 13 largest banks. It concentrates on retail and corporate customers, particularly mid-sized companies with high credit ratings. Focusing on Hungary's promising retail segment, the bank has set its sights high. EBH currently holds a share of about 3% in this. In 1998 sweeping measures were initiated to reposition the bank, which have since come to fruition.

On the retail side, EBH used a marketing drive to expand its clientele by almost one-third. It now serves about 160,000 customers. In retail lending the growth rate was even higher, at 40%. Additionally, EBH now has more than 4,500 corporate customers.

Erste Bank's subsidiary, Immorent, founded two real estate and equipment leasing companies in which EBH holds a 10% equity stake. The range will be broadened next year through the establishment of an automobile-leasing firm.

Erste Bank Sparkassen (CR) a.s. – Czech Republic

(Erste Bank shareholding: 66.7 %)

Erste Bank Sparkassen (CR) a.s. (EBCR) has operated as a universal bank in the Czech Republic since 1993. The Prague main branch and seven other outlets together employ a staff of about 250. The core activities and strengths of EBCR lie in corporate lending to international, Austrian and local SME customers, as well as real estate leasing finance. EBCR also offers treasury and investment products. Its corporate accounts number about 3,000.

A major share of EBCR's human resources in 2000 will be devoted to restructuring the newly-acquired esk spo itelna and integrating Erste Bank Prague within the Czech savings bank.

Bjelovarska banka d.d. and Trgovacka banka d.d. – Croatia

(Erste Bank shareholding: 37.8 % and 48.7 %)

In October 1999 Erste Bank followed its 1997 acquisition of a stake in Bjelovarska banka d.d. (Bjelovar) with the purchase of a tranche of Trgovacka banka d.d. (Zagreb). Both investments were made in co-operation with Steiermärkische Bank und Sparkassen AG. At the end of 1999 the two banks between them held more than 75% of voting shares of Bjelovarska banka and 97% of Trgovacka banka. In the first quarter of 2000 Erste Bank also indirectly acquired 60% of Cakovecka banka through Bjelovarska banka. These investments give Erste Bank a market share of 3 to 4%, concentrated in the north-eastern part of the country and in the capital, Zagreb. The three banks are among the most profitable and reputable in the country and will be merged in 2000.

Asset Gathering

The Asset Gathering segment comprises the investment fund business, asset management and insurance. The Private and Institutional Asset Management unit, encompassing private banking, portfolio management and investment funds, had a very successful year. Strong growth was charted both in institutional and mutual funds. Erste Bank through its holding in Sparkassen Versicherung AG also recorded growth in life insurance and retirement savings that bettered the industry average.

	in %	1999 in EUR million
Attributed equity		2.5
% of equity	0.2 %	
Risk-weighted assets		54.0
Pre-tax profit		58.4
% of Group pre-tax profit	24.2 %	
Cost/income ratio	43.3 %	
RoE based on pre-tax profit [1])	2,294.3 %	

[1]) Group RoE based on pre-tax profit: 17.8 %

Private Banking and Institutional Asset Management

Attractive market with an exciting future

Asset management for wealthy individuals and institutions represents a particularly attractive market for a number of reasons. The business offers a combination of handsome potential returns and relatively low risk. According to forecasts of demographic trends and levels of private wealth, the outlook is excellent. Erste Bank was quick to recognise its clients' needs and plays a leading role in this market. The private banking arm serves high-net-worth individuals and domestic institutions. Its core expertise is in tailored solutions, for example in the form of discretionary management, special funds and umbrella funds. Assets under management at the end of 1999 had grown to more than EUR 5.7 billion, an increase of close to one–quarter on the year–earlier level of approximately EUR 4.6 billion.

Portfolio management

Erste Bank has a leading role in the Austrian portfolio management market. Total customer assets managed by the bank were bolstered by about 10% to EUR 1.8 billion, thanks in part to the growing number of equity portfolios.

Fund-based portfolio management under the Erste Capital Management brand, known as ECM, was very popular with clients in 1999. ECM is a customised product for principal amounts of about EUR 70,000 or more. Customers choose between four investment strategies with different risk/return profiles, ranging from pure bond holdings to portfolios with an equity component of 50%. The 16,000 customer portfolios have aggregate assets of over EUR 1.38 billion which signifies an increase of some 10% on the previous year. Part of this improvement was certainly made possible by the addition of the umbrella funds to the product range. A co-operative arrangement was agreed in 1999 with the Swiss private bank Lombard Odier. This now gives ECM's customers the benefit of reinforced international know-how in investment matters.

Erste-Sparinvest (KAG)

(Erste Bank shareholding: 83.5 %)

Vigorous growth in fund assets

For some years now the Austrian investment fund industry has been enjoying exponential growth. Its rising fortunes reflect growing demand from retail and institutional investors. Participating in this growth, Erste-Sparinvest's total funds under management jumped by 30% last year, from EUR 11.2 billion to EUR 14.5 billion. This translates into a market share for Erste-Sparinvest of 19.3% and makes it the third-largest Austrian fund management company. At Erste Bank and the savings banks, investment funds have become the most important investment product.

Market leader in retail funds

In retail mutual funds, which dominate the market with 56% of assets, Erste-Sparinvest commands a market share of 24.5%. With EUR 10.2 billion under management, the firm is the undisputed market leader. This is partially attributable to the highly successful innovations of the past year, all of which answered clients' needs: mixed umbrella funds, a Japanese equity fund and a high-yielding corporate European bond fund were well-timed solutions that captured current trends.

Erste Bank is also the representative, paying agent, and tax representative for the purpose of withholding tax, of more than 290 international funds in Austria. This makes Erste Bank one of the largest vendors of international funds in the domestic market.

In the institutional fund business, which has seen a strong rise in volumes in recent years, Erste-Sparinvest redoubled its customer acquisition activities in 1999. The fund company pushed up assets under management to EUR 1.5 billion and thus lifted its market share by one percentage point to 13%.

Sparkassen Versicherung AG

(Erste Bank shareholding: 39.1 %)

In the market since 1986, Sparkassen Versicherung (S-Versicherung), has become the largest Austrian life insurer by means of the exclusive co-operation with the savings bank sector. Its premium income of EUR 559 million represents growth of 61%, far ahead of the average for the industry. The Austrian life insurance market last year grew by about 18% in premium income.

A major factor in this result was the strategy of S-Versicherung, pursued together with the savings bank sector, to intensively promote private retirement provision in Austria. With an increase in private pension policies of over 13% to total premiums written of close to EUR 434 million, these made up more than one-third of total business volume. The geometric growth in unit-linked insurance policies tripled the volume of these products to EUR 138 million.

Large Corporate Customers

The segment of Large Corporate Customers – consisting of the Key Accounts unit and International Business unit – caters for domestic and international corporate customers, foreign banks and sovereign borrowers. In addition to other commercial lending, it offers project finance, such as for tourist developments facilities and other commercial real estate in Austria and internationally.

	in %	1999 in EUR million
Attributed equity		490.8
% of equity	36.1 %	
Risk-weighted assets		10,377.5
Pre-tax profit		93.7
% of Group pre-tax profit	38.8 %	
Cost/income ratio	42.8 %	
RoE based on pre-tax profit [1])	19.1 %	

[1]) Group RoE based on pre-tax profit: 17.8 %

Key Accounts

Key relationship bank to one-quarter of Austria's top companies

The Key Accounts unit, based at Erste Bank's Vienna head office, lends to companies whose revenue exceeds EUR 73 million. In 1999 the unit served about 3,000 customers. The main reason for the dip of 3% in 1999 lendings was a reduction in public sector business volumes. By acquiring new customers, the portfolio was expanded and fee and commission income increased. Erste Bank deals with 44% of the 500 largest Austrian companies. Around one quarter of these top 500 name Erste Bank as their key relationship bank.

Immorent

(Erste Bank shareholding: 100 %)

Jump in leasing revenue

Immorent offers one of the widest ranges of leasing finance available in Central Europe: real estate and equipment, international leasing business, real estate investment in the form of "nest-egg" apartments, and property funds. The leasing business generated record revenues in 1999. Total new leases (property and equipment in Austria and abroad) gained EUR 312 million compared to 1998, climbing 74% to EUR 545 million. Of this, EUR 378 million were posted in Austria (property: EUR 225 million, equipment: EUR 153 million) and EUR 167 million in other countries. This strong performance is explained by a combination of intensive selling activities and increased involvement in the Czech Republic, Slovakia, Hungary, Croatia and Slovenia. Two residential housing developers, Erste Bauträger AG and Realia AG, were fitted into Immorent in the Group restructuring.

International Business

The international business situation has improved dramatically after the turmoil, which enveloped the emerging markets in 1997 and 1998. Contrary to economic researchers' forecasts of a global recession and related credit squeeze, the world economy has swung into a broadly based recovery. The continued excellent economic performance in the USA and good outlook for Europe did their part in creating a favourable business environment.

The assets of the International Business unit increased sharply in 1999 even as the cost of loan risk exposure was cut in half. The strong performance of the International Business group derives primarily from its focus on select products and customers, notably credit to sovereign borrowers and banks as well as international corporate and project finance.

International branches

The branches in London, New York and Hong Kong produced very respectable results last year with some departments well above target. The three branches pursue a keenly focused business strategy. Among other lines of business, in 1999 their 106 employees concentrated on trade and project finance in various focal regions, as well as on investment in asset-backed securities. The financing of banks and governments forms an additional pillar for the Hong Kong operation, while the London branch is also strong in aircraft and property finance activities.

Key figures of foreign branches

	London	New York	Hong Kong	Total
Total assets in EUR million	1,520.1	3,960.3	834.0	6,314.4
Pre-tax profit in EUR million	4.8	6.9	8.3	19.9
Employees	45	39	22	106
Cost-Income-Ratio *)	42.6 %	26.4 %	28.8 %	31.3%

*) allowing for adequate capital base

Credit risk at Erste Bank Group

Industry In EUR million	Domestic	Share in %	International	Share in %	Total	Share in in %
Banking and insurance	5,809	18.0	10,601	59.3	16,410	32.7
Consumer	7,590	23.5	211	1.2	7,801	15.5
Public sector	5,239	16.2	1,770	9.9	7,009	14.0
Real estate	3,974	12.3	852	4.8	4,826	9.6
Production of goods	2,488	7.7	1,276	7.1	3,764	7.5
Trade	2,697	8.3	315	1.8	3,012	6.0
Transport and communication	684	2.1	796	4.5	1,480	3.0
Construction	1,352	4.2	103	0.6	1,455	2.9
Tourism	1,050	3.3	316	1.8	1,366	2.7
Other	1,440	4.5	1,622	9.0	3,062	6.1
Total [1])	**32,323**	**100.0**	**17,862**	**100.0**	**50,185**	**100.0**

[1]) Loans and advances to customers and banks, fixed-income securities, guarantees and warranties

Domestic

In 1999 the customer-related assets of Erste Bank AG (gross before deduction of bad debt provisioning) before consolidation reached approximately EUR 25 billion. The share of the banking and insurance business is seen to be highest, followed by the public sector, consumers and real estate. These key sectors add up to EUR 19.5 billion, or about 78 % of Erste Bank AG's customer-related assets.

The breakdown of customer-related assets by risk of default underscores the conservative lending culture. The portion with no discernible risk of default, roughly EUR 21.6 billion, constitutes about 85% of all customer-related assets. Non-performing loans only amount to approximately EUR 0.6 billion, or 2.5 % of customer-related assets.

Asset quality of Erste Bank at selected Group companies

As a consequence of Group-wide risk management, the evaluation of risks is harmonised across the Group. This is positive for the major enterprises (Salzburger Sparkasse, S Bausparkasse, S-Wohnbaubank, Intermarket Factoring, EBV Leasing, Immorent). The Group thus does not display risk clusters around specific industries or default risks.

Most of S Bausparkasse's risk is broadly diversified, as its core activity is retail lending, especially mortgage loans. Thanks to the traditional market conditions prevailing in this sector, the level of credit risk is far below average. The existing risk provisions of Salzburger Sparkasse of EUR 109 million cover some 61 % of non-performing loans. Taking account of the associated collateral, this is a sufficient level of provision for these risks. The Immorent Group, a household name in property leasing in Austria, is distinguished by selective investments with sound risk ratings. EBV-Leasing mostly offers car leases for consumers. Small volumes per customer and the wide dispersal of risk in all market segments lead to a low requirement for risk provisioning.

International

The exposure by country categories shows a heavy bias towards the industrialised nations, i.e. regions with low country and transfer risk. In 1999 the Bank purposefully expanded its business in the Central European extended home market and – after largely overcoming the crises of 1997 and 1998 – repeated this in selected emerging markets. Here growth focused on investment-grade and near-investment-grade risks in Asia (South Korea and Malaysia), Africa and the Middle East, as well as selective short-term business in Turkey and Latin America. The clients in emerging markets were primarily governments and banks.

Structure of exposure and provisions in selected countries

in EUR million	Exposure [1]	"Risk-carrying" exposure	Provisions	Coverage ratio
Industrialised countries	**17,071**	**158.9**	**59.8**	**37.6 %**
Extended home market [2]	**2,131**	**7.5**	**4.0**	**53.0 %**
Emerging Markets	**2,264**	**123.8**	**59.0**	**47.7 %**
Asia	*1,074*	*119.9*	*56.1*	*46.8 %*
Latin America	*536*	*0.0*	*0.0*	*0.0 %*
Other	*655*	*3.9*	*2.9*	*75.4 %*
CEE/CIS	*82*	*3.9*	*2.9*	*75.4 %*
Middle East	*276*	*0.0*	*0.0*	*0.0 %*
Africa	*297*	*0.0*	*0.0*	*0.0 %*
Russia	**82**	**61.3**	**31.4**	**51.3 %**
Developing countries	**166**	**81.8**	**74.6**	**91.2 %**
Total	**21,714**	**433.3**	**228.9**	**52.8 %**

[1]) Including unused commitment and partial double-counting due to cross-border attribution of business and collateral

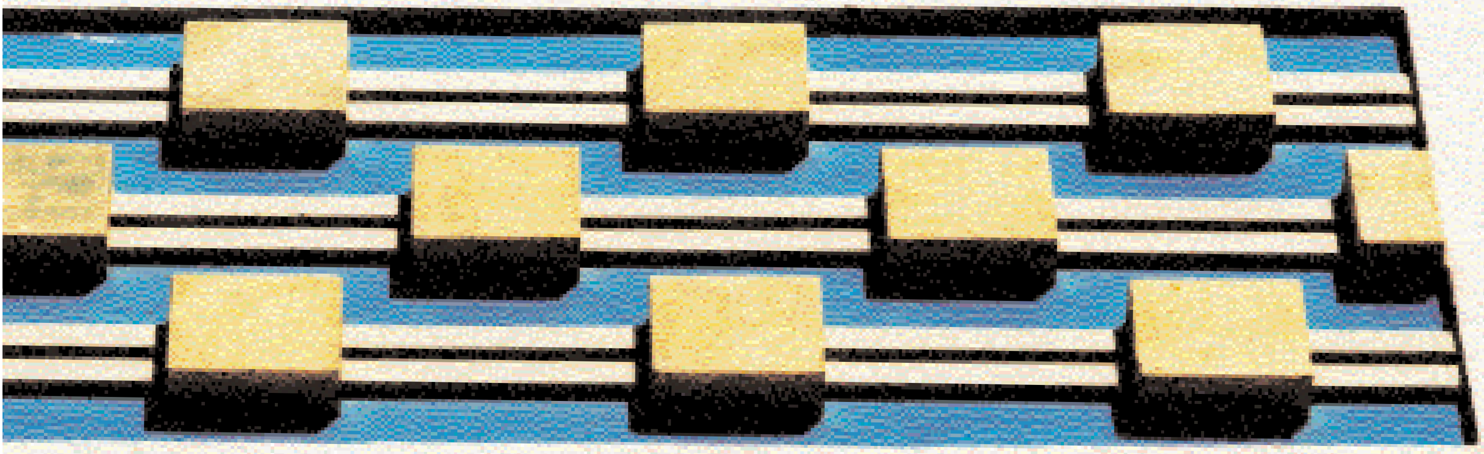
[2]) Croatia, Czech Republic, Hungary, Poland, Slovakia, Slovenia

The consolidation observed in 1999 in the credit risk situation in international lending is also visible in the trend for problem loans and the requisite risk provisions. In the high-risk regions of the previous years (Asia and Russia), there were only isolated new problem loans requiring provisioning. Increases in provisions for previously identified problem cases also proved to be small. This suggests that the key credit risk problems were already sufficiently recognised and appropriately provided for in 1998.

As a result of this positive development, the risk provision expense for the international credit risk portfolio was reduced by more than 40% with the previous year's unusually high level of about EUR 62 million falling to EUR 34.5 million.

The international "risk-carrying" exposure at end-1999 stood at approximately EUR 433.3 million, made up of slightly less than EUR 248.4 million (57%) of non-performing loans and some EUR 184.9 million (43%) of performing, but intermediate risk loans. Risk provisions covered 91% of the EUR 248.4 million of non-performing loans at the end of the year.

The overall movement in Group risk provisions is described in Notes 15 and 30 to the financial statements. The risk management of Erste Bank and a detailed account of the credit and market risks are presented beginning at Note 41 .



Trading and Investment Banking

The Trading and Investment Banking segment comprises the Investment Banking unit and Treasury unit as well as balance sheet management.

	in %	1999 in EUR Mio
Attributed equity		270.0
% of equity	19.9 %	
Risk-weighted assets		5,756.9
Pre-tax profit		36.5
% of Group pre-tax profit	15.1 %	
Cost-income ratio	64.4 %	
RoE based on pre-tax profit [1])	13.5 %	

[1]) Group RoE based on pre-tax profit: 17.8%

Investment Banking

Successful capital market activities

The Investment Banking arm delivered truly excellent results for 1999. Erste Bank Capital Markets was able to make a name for itself in Austria by offering dynamic, innovative access to equity finance. In 1999 Erste Bank piloted the capital increase of RHI AG and served as co-lead-manager in the flotation of Libro AG. Another key event was the spectacularly successful initial public offering of CyberTron Telekom AG, in which Erste Bank acted as lead manager and global co-ordinator. CyberTron, one of the few New-Economy listings on the Vienna stock exchange, saw its share price rise by up to 260 % in the first few days of listing. In total, the Bank led five equity transactions for Austrian companies and one for a German firm. Additionally, Erste Bank took part in the equity placement for the Goldman Sachs IPO, the capital increase of Deutsche Telekom AG and the IPO of Fabasoft.

Equity Sales and Derivatives

In spite of the 25 % drop in total turnover on the Vienna stock exchange, Erste Bank defended its position of market leader in trading for the account of customers, both in equities (with a market share of 22 %) and equity and index derivatives (with a dominant 40 % of the market).
The trade in derivatives on Vienna's futures and options exchange declined tangibly. This was however more than offset by increasing the emphasis on serving Austrian investors in international derivatives markets, a trend that is expected to continue in 2000 due to the positive developments in capital markets around the world.

Investment Banking in Central Europe

The Investment Banking activities have grown into a key driver for Erste Bank in Austria and Central Europe. Although an unfavourable macroeconomic and political environment (and attendant weakness of capital markets) prevailed for most of the year, Erste Bank was able at least to stabilise its earnings position and establish a good starting point for the forthcoming upswing.

In four countries, Erste Bank has founded subsidiaries that have very quickly become the most active participants in their respective capital markets.

Country	Erste Bank subsidiary	Shareholding in %	Activities
Czech Republik	Erste Bank savings banks (CR) a.s.[1])	66.7 %	Trading & sales; corporate finance, research, mergers & acquisitions, asset management
Hungary	Erste Bank Investment Hungary Ltd.	99.8%	Trading & sales, mergers & acquisition, asset management
Croatia	Erste Securities Zagreb Ltd.	88.6 %	Equity and securities trading, corporate finance, research
Poland	Erste Securities Polska S.A.	100.0%	Issuing, corporate finance, venture capital finance, trading & sales

[1]) Investment banking within Erste Bank Sparkassen Prague

CDI-Erste Central Europe Holding GmbH

CDI (Corporate Development International, formerly AMandA) developed into the leading M&A adviser in Austria. In 1999 the Erste Bank Group strengthened its collaboration with CDI-Erste Central Europe Holding GmbH (CDI) and raised its direct ownership in the holding company to 65.1%.

In terms of order books both at CDI-Erste (M&A advisory for mid-sized and large companies) and Remaco GmbH (M&A advice for small businesses), 1999 was a winning year. More than 300 transactions in Europe and the USA have been completed successfully to date.

Alongside Asia and South America, transatlantic projects are increasingly gaining prominence as globalisation progresses. The activities of the CDI Group thus perfectly complement the Central Europe strategy of CDI-Erste.

Treasury

In the bond market, 1999 proved one of the most difficult years of the past decade with bond prices falling throughout the year.

Despite this environment, Erste Bank succeeded in nearly doubling the issuing volume of structured products, such as bonds with warrants. Erste Bank remains the leading provider for sophisticated treasury and bond market products in Austria.

Similarly, the Bank is one of the top sources nationally and indeed internationally in money market and foreign exchange products for the Central European market.

Treasury Sales

As had been expected, the introduction of the euro led to a volume decline in foreign exchange trading and money dealing with corporate clients. The Treasury Sales team focused on customised solutions in the bond market area for institutional and corporate customers, savings banks and third-party banks. More than 80 equity-linked bonds, such as cash-or-share instruments, were successfully placed. Savings banks accounted for the largest single share of this business.

Issuing business

The Debt Issuance Programme (DIP) launched in 1998 with a ceiling of EUR 2 billion was expanded in 1999 to EUR 4 billion. The DIP is a framework programme that permits issuance in any currency and maturities and with diverse structures. In 1999 an additional 27 new issues with a total volume of EUR 1.6 billion were launched under the programme and at 31 December 1999 the utilisation of the DIP amounted to about 44.4 %.

The year’s most significant transaction was the issue of EUR 100 million of perpetual preference shares for Erste Finance Jersey in February 1999.

Corporate Centre

The Corporate Centre segment provides services to promote achievement of Erste Bank's strategic goals. It also comprises equity holdings not assigned to the other four segments.

	in %	1999 in EUR million
Attributed equity		19.6
% of equity	1.4 %	
Risk-weighted assets		415.5
Pre-tax profit		7.5
% of Group pre-tax profit	3.1 %	
Cost-Income-Ratio	34.9 %	
RoE based on pre-tax profit [1]	38.1 %	

[1] Group RoE based on pre-tax profit: 17.8 %

Marketing

In 1999 Erste Bank passed important milestones towards achieving its strategic goals. The marketing of the savings sector was unified behind a single brand virtually all savings banks and Erste Bank are now using the same corporate logo format and a joint advertising campaign commenced in March 2000. But Erste Bank did more than simply orchestrate a single corporate line for purposes of communication – standardised advisory concepts are gradually spreading through the sector.

Organisation & IT

Last year, consistent with the overall savings bank strategy, Erste Bank and the savings banks worked closely together to harmonise the sector's organisational management and IT planning. New technologies were deployed to improve process flows and IT system availability was improved. Another major task was to support the cost reduction and earnings enhancement programme.

S OM-Objektmanagement GmbH

(Erste Bank shareholding: 100 %)

This subsidiary's activities in 1999 centred on reducing the amount of office space used at the Vienna headquarters in the interest of cost savings. In addition, S OM-Objektmanagement took over the management of all building projects for Erste Bank subsidiaries in Hungary and the Czech Republic.

SPARDAT – Sparkassen Datendienst Ges.m.b.H.

(Erste Bank shareholding: 72.2 %)

Spardat is the software house jointly owned by Erste Bank Group and the Austrian savings banks. The current software system will be expanded starting in 1999 with the aim of adopting it into the entire savings bank sector from 2002. The transition to the year 2000 passed smoothly for Erste Bank Group and the savings banks. Erste Bank prepared thoroughly for the event and, after successful external tests, was certified Y2K compliant well in advance, in June 1999. A total of some 1,200 employees at Erste Bank Group and the savings banks (equivalent to almost 80 man-years) were on duty during the end-of-century date change. The related costs and investment reached about EUR 25.4 million. Much of this amount related to the technical infrastructure, with IT development and testing claiming about 45 % of this expense.

Cost reduction project

In addition to the earnings enhancement drive, a cost reduction programme was launched at the beginning of 1999. Its objective is to trim costs by about EUR 76 million over a two-year period. Over the next several years the implementation is expected to produce cost reductions for Erste Bank as follows:

Year of effect on income statement	Target	Actual (at 31 Dec 1999)
1999	EUR 18 million	EUR 19 million
2000	EUR 46 million	
2001	EUR 12 million	

Even in 1999, its first year, the programme overachieved its targeted savings. Costs were reduced by a total of EUR 19 million. Personnel expenses, the main source of economies, fell by almost 10 %. "Other administrative expenses" were also brought down significantly by EUR 6.9 million. This included the savings brought about by a reduction in office space at headquarters of over 30 %, or 20,000 m^2. Most of the resulting savings of EUR 4.1 million will show on the income statement in 2000.

Equity investment strategy

The investment strategy of the Erste Bank Group is focused on banking and one-stop financial services. The proportion of non-core investments, notably industrial holdings, is gradually being reduced.

After the successful listing of Eybl International AG on EASDAQ in 1998, Erste Bank divested its entire holding in this company last year. The 12.3 % stake in NPF-Holding AG, a shareholder of the operating company Nettingsdorfer Papierfabrik, was sold in 1999.

Other Information

Antitrust proceedings – European Union

Erste Bank and other large Austrian banks are party to proceedings before the European Commission. The complaints communicated to date by the Directorate-General IV/Competition allege that these financial institutions infringed European Union law by fixing interest rates, prices and other terms through the so-called "Lombard Club" and other private meetings.

Erste Bank does not contest that such talks occurred, or that they were attended by representatives of Erste Bank or of financial institutions with which it has since merged. However, there is disagreement in respect of the antitrust proceedings as to whether, and to what extent, these talks influenced international trade in the EU and thus the international market. Moreover, Erste Bank is able to state clearly that participation in these talks did not occur in the awareness of violating EU fair trade rules, and subsequent economic studies have borne out that market conditions were not affected by the banks' conduct.

As part of the proceedings, the banks attended a hearing in 2000 before representatives of the Commission. The Commission will canvas the opinions of the competition authorities of the EU countries in the course of this year and then make its ruling.

It is Erste Bank's view that, a possible conviction would not have a material effect on the performance of the Erste Bank Group.

1999 Consolidated Financial Statements according to IAS

I. Group Balance Sheet as of 31 December 1999

Assets	Notes	31 Dec 1999 in EUR thousand	31 Dec 1998 in EUR thousand
1. Cash and balances with central banks	12	940,038	740,053
2. Loans and advances to credit institutions	1,13	10,294,689	13,109,492
3. Loans and advances to customers	1,14	26,405,198	26,466,790
4. Risk provisions for loans and advances	2,15	(964,825)	(1,198,271)
5. Trading assets	3,16	1,397,524	1,648,428
6. Investments available for sale	4,17	4,398,526	3,223,611
7. Financial investments	5,18,19,47	7,395,587	5,565,354
8. Intangible fixed assets	6,19	327,997	310,520
9. Tangible fixed assets	7,19	582,585	591,907
10. Other assets	11,20,21	1,665,793	1,532,351
Total assets		**52,443,112**	**51,990,235**

Liabilities and Equity

1. Amounts owed to credit institutions	22	20,571,348	21,790,615
2. Amounts owed to customers	23	19,532,650	19,483,417
3. Debts evidenced by certificates	9,24	6,360,076	5,095,597
4. Provisions	10,11,25	710,335	769,378
5. Other liabilities	26	1,437,237	1,457,769
6. Subordinated capital	27	1,967,654	1,765,779
7. Minority interests		427,683	313,455
8. Equity	28	1,436,129	1,314,225
Total liabilities and equity		**52,443,112**	**51,990,235**

II. Group Income Statement for the year ended 31 December 1999

		Notes	1999 in EUR thousand	1998 in EUR thousand
1.	Interest and similar income		2,732,008	2,826,669
2.	Interest and similar expenses		(1,995,719)	(2,093,835)
I.	**Net interest income**	**29**	**736,289**	**732,834**
3.	Risk provisions for loans and advances	30	(132,516)	(104,506)
4.	Fee and commission income		453,724	421,306
5.	Fee and commission expenses		(131,373)	(114,833)
	Net commission income	*31*	*322,351*	*306,473*
6.	Net trading result	32	113,704	132,951
7.	General administrative expenses	33	(821,659)	(841,622)
8.	Other operating results	34	23,382	(19,775)
9.	Extraordinary result		–	–
II.	**Pre-tax profit for the year**		**241,551**	**206,355**
10.	Taxes on income	35	(49,018)	(58,837)
III.	**Profit for the year**		**192,533**	**147,518**
11.	Minority interests		(27,906)	(14,161)
IV.	**Net profit after minority interests**	**36**	**164,627**	**133,357**

III. Statement of Changes in Equity

in EUR million	Subscribed capital	Capital reserve	Retained earnings	Distributable profit	Total 1999	Total 1998
Equity as of 1 January	**323**	**636**	**303**	**52**	**1,314**	**1,241**
Translation differences	–	–	3	–	3	(8)
Dividends	–	–	–	(51)	(51)	(51)
Net profit after minority interests	–	–	110	55	165	133
Other changes	–	–	5	–	5	(1)
Equity as of 31 December	**323**	**636**	**421**	**56**	**1,436**	**1,314**

Changes in shares and participation certificates (units)

	31 Dec 1999 Shares	31 Dec 1999 PCs	31 Dec 1998 Shares	31 Dec 1998 PCs
Issued shares and participation certificates (PCs)	44,360,799	5,000	44,360,799	5,000
– own shares and PCs in bank's portfolio	(23,170)	(1,017)	(27,302)	(757)
= shares and PCs outstanding	44,337,629	3,983	44,333,497	4,243
Shares and PCs outstanding as of 1 January	44,333,497	4,243	44,360,799	4,539
Additions to own shares and PCs	(2,909,794)	(285)	(3,789,402)	(296)
Disposal of own shares and PCs	2,913,926	25	3,762,100	–
Shares and PCs outstanding as of 31 December	44,337,629	3,983	44,333,497	4,243
Own shares and PCs	23,170	1,017	27,302	757
Number of shares and participation certificates as of 31 December	**44,360,799**	**5,000**	**44,360,799**	**5,000**

The own shares and participation certificates listed here are reported in the trading portfolio at a carrying amount of EUR 1.3 million as of 31 December 1999 (31 December 1998: EUR 2.2 million).

Within the scope of the IPO in 1997 stock options were issued to management level employees of Erste Bank Group. The exercise price is based on the ratio of the increase in the value of the shares (computed using the average share price in April 2001) to the offer price stipulated in the IPO. If the increase in value does not exceed 30%, no discount will be granted; if it does exceed 30%, the rebate will be at least 15% of the offer price. The rebate for a 50% increase in the share price is 20% of the offer price. A price increase of 100% grants the holder a rebate equal to the issue price. Should the increase be between 30% and 100%, a gradual upward adjustment of the rebate is foreseen (up to a maximum of 100% of the IPO offer price). The stock option may be exercised within the space of two years after the lock-up period (between 30 June 2001 and 30 June 2003) and is neither negotiable nor transferable. The number of stock options that can actually be exercised after the lock-up period will depend on the return on equity of Erste Bank Group in 2000. A return on equity of 12% or more means that all stock options can be exercised. A return on equity of 8% or less means that no stock options can be exercised. If the RoE is between 8% and 12% a gradually increasing number of stock options can be exercised.

IV. Cash Flow Statement

in EUR million	1999	1998
Profit for the year	**193**	**148**
Adjustments for		
Depreciation, revaluation gains on fixed assets and financial investments as well as investments available for sale	118	169
Allocation/release of provisions (including risk provisions)	108	102
Profits from the sale of financial investments, fixed assets	(28)	(70)
Other adjustments	(569)	(594)
Changes in assets and liabilities from operating activities after adjustments for non-cash components		
Loans and advances to credit institutions	2,815	(765)
Loans and advances to customers	62	(194)
Trading portfolio	240	(78)
Investments available for sale	(1,191)	(425)
Other assets from operating activities	(522)	(69)
Amounts owed to credit institutions	(1,219)	1,690
Amounts owed to customers	49	220
Debts evidenced by certificates	1,263	(278)
Other liabilities from operating activities	(210)	(453)
Interest and dividends received	2,732	2,827
Interest paid	(1,996)	(2,094)
Cash flows from operating activities	**1,845**	**136**
Proceeds from the sale of		
Financial investments	2,464	2,458
Fixed assets	136	373
Payments for the acquisition of		
Financial investments	(4,251)	(3,112)
Fixed assets	(245)	(415)
Other effects	95	42
Cash flows from investing activities	**(1,801)**	**(654)**
Dividends paid	(51)	(52)
Other financing activities	204	155
Cash flows from financing activities	**153**	**103**

in EUR million	1999	1998
Cash and cash equivalents at beginning of period	**740**	**1,157**
Cash flows from operating activities	1,845	136
Cash flows from investment activities	(1,801)	(654)
Cash flows from financing activities	153	103
Effect of changes in exchange rates	3	(2)
Cash and cash equivalents at the end of period	**940**	**740**

The Cash Flow Statement provides information about the size and changes of the Group's cash and cash equivalents. It shows the inflow and outflow of funds broken down into operating activities, investing activities and financing activities. The reported amount of cash and cash equivalents is comprised of cash in hand, balances with central banks and those bills of exchange eligible for funding with central banks (see Note 12).

V. Notes to the Consolidated Financial Statements of Erste Bank Group

General information

The Consolidated Financial Statements of Erste Bank for the 1999 financial year and comparative figures for 1998 were prepared in compliance with the International Accounting Standards (IAS) approved and issued by the International Accounting Standards Committee (IASC) and their interpretations issued by the Standing Interpretations Committee (SIC), thus satisfying the prerequisites set forth in Section 245a Austrian Commercial Code and Section 59a Austrian Banking Act on exempted consolidated financial statements prepared according to internationally recognised accounting principles. Furthermore, the disclosure requirements of the European Union were met where necessary.

In 1999 Erste Bank branch offices located in the Provinces of Upper Austria, Salzburg and Carinthia were spun off and transferred to the savings banks of the corresponding provincial capitals in exchange for shareholdings, which restricts the comparison of certain items appearing in the Balance Sheet and Income Statement with those of the previous year. It should be noted that Salzburger Sparkasse was already a Group company of Erste Bank Group.

The 1999 Consolidated Financial Statements (and corresponding figures for the previous year) were prepared according to Standards and Interpretations of the SIC ("Standing Interpretations Committee") prevailing at the time. As early adoption of approved Standards is encouraged by the IASC, the following Standards have already been applied to the 1998 Consolidated Financial Statements:

IAS 36 "Impairment of Assets", IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and IAS 38 "Intangible Assets".

IAS 39 "Financial Instruments: Recognition and Measurement", which is mandatory for Financial Statements for financial years beginning on or after 1 January 2001, was not adopted. Consequently, the rules for recognition and measurement stated in IAS 25 "Accounting for Financial Investments" are still applied (additionally those IAS relevant for banking groups were also taken into account).

Differences between the Consolidated Financial Statements according to IAS and the Austrian reporting methods applied up until this point are reconciled in detail under Point VI.

Due to the reorganisation in the financial year 1998 and the resulting change in organisational structure and process organisation, the comparison figures provided for segment reporting are no longer very meaningful. Furthermore, in a few isolated cases (indicated in the Notes) no comparison figures were provided at all owing to the disproportionately large workload involved. This applies, in particular, to the explanation of the interest rate risk, the fair value of financial instruments, the fair value of derivative financial products and to reconciliation of the effective tax rate.

Unless otherwise indicated, all amounts are stated in EUR million. Differences due to rounding may appear in the following tables.

Assets and liabilities stated in foreign currencies and pending foreign currency spot transactions are converted at the mean rate of exchange and forward exchange contracts at the forward rate at the balance sheet date.

In translating the financial statements of foreign subsidiaries prepared in foreign currencies, the mean rate of exchange at the balance sheet date was applied in the case of the Balance Sheet and the annual average rate was used for the Income Statement. Translation gains and losses resulting from the inclusion of foreign subsidiaries in the Consolidated Financial Statements are netted with retained earnings.

The accounting policies applied uniformly throughout the Group observe the going concern principle.

Revenue and expenses are recognised and reported in the period in which they are earned and incurred, respectively.

Scope of Consolidation

In 1999 the scope of consolidation encompassed 240 domestic and foreign subsidiaries in addition to Erste Bank AG. In the year under review 20 subsidiaries were included in the Consolidated Financial Statements for the first time and 10 were eliminated from the scope of consolidation.

Branch offices of Erste Bank AG in the provinces of Carinthia, Salzburg and Upper Austria were spun off in 1999 and transferred to the savings banks of the respective provincial capitals in exchange for shareholdings (cf. explanation appearing in the Management Report). While the Salzburg branches are still fully consolidated, as part of transferring the branches in Upper Austria to Allgemeine Sparkasse Oberösterreich Bankaktiengesellschaft in Linz a stake in the savings bank was acquired and valued at equity as of 1 January 1999. The shares in the Kärntner Sparkasse Aktiengesellschaft, in Klagenfurt are stated at cost.

As part of Erste Bank's strategy for Central Europe, additional equity holdings were acquired in credit institutions in Croatia: the stake in Trgovacka Banka d.d., Zagreb, is a new acquisition and the holdings in Bjelovarska Banka d.d., Bjelovar, were increased by 12.75 %.

In addition to intragroup legal mergers the majority of the shares were acquired in CDI-Erste Central Europe Holding GmbH, Frankfurt (part of the group including 6 companies operating predominantely in investment banking in the extended home market).

At the beginning of the year, Erste Finance Ltd. (Jersey), Jersey, was founded, which floated a sub-Tier 1 issue (perpetual preference shares) in 1999.

The stake in Eybl International AG, Krems, was sold.
In the 1999 Consolidated Financial Statements, 210 investments in associates have been included, of which 132 companies were accounted for under the equity method. The remaining associates were reported under financial investments, as they are of minor significance in presenting a true and fair view of the Group's assets, earnings and financial position.

Proportionate consolidation is not applied in the Consolidated Financial Statements (IAS 31.28). Companies with a capital share of between 20% and 50% that are not fully consolidated and joint ventures are reported in the Consolidated Financial Statements at equity, as joint ventures are of minor significance in the shareholdings portfolio of Erste Bank Group.

88 subsidiaries whose overall influence on the Group's assets, earnings and financial position is of minor significance and 3 undertakings whose assets are subject to restrictions due to provisions of the Non-Profit Housing Act were not consolidated.

Shareholdings in significant companies and their reporting in the Consolidated Financial Statements are presented in Note 47.

Principles of Consolidation

All significant subsidiaries are included in the Consolidated Financial Statements. Significant investments of between 20 and 50% (associates) are stated at equity and, where necessary, the corresponding financial statements have been restated according to IAS. As for investments in the insurance sector, owing to the special national legal requirements and the fact that insurance companies in Austria are not yet reporting according to IAS these are stated at equity pursuant to Austrian accounting standards.

The remaining investments are reported at historical cost and in the case of permanent impairment of value the asset is written off accordingly.

Capital consolidation is done according to the purchase method by setting off fair values against the parent company's interest obtained in the equity stake at the time of acquisition. Any difference between fair values and the equity stake is either partially or completely attributed to the assets of the subsidiary. Goodwill resulting from acquisitions after 1 January 1995 is capitalised and written off over its estimated useful life. This is generally set at 20 years for domestic banks and financial service providers, 15 years for foreign banks and financial service providers and between 5 and 15 years for all other companies (cf. Note 6, intangible fixed assets).

Intercompany balances, income and expenses as well as intercompany profits and losses are eliminated provided that they are not of minor significance.

Accounting policies

1) Loans and advances

Loans and advances to credit institutions and customers are reported at their nominal amount or at cost. Credit losses which are not provided for are directly set off in this position.

Provisions for specific and country risks are not set off against the corresponding loans and advances, but rather reported as a separate line item in the Balance Sheet.

Premiums and discounts – the differences between amounts paid out and nominal amounts – are reported as interest income or interest expenses under other assets or other liabilities, and attributed to that accounting period in which they are earned or incurred, respectively.

Interest receivable is not recognised as revenue in the income statement if – regardless of the legal right to do so – it is highly improbable that future economic benefits will flow to the company.

Securities not listed on the stock exchange and credit substitutes evidenced by certificates are reported under the appropriate securities portfolio items (trading portfolio, investments available for sale or financial investments).

2) Risk provisions for loans and advances

The special risks inherent to the banking business are taken into account by making adequate provisions. Creditworthiness risks are provisioned in accordance with prudent valuation standards applied uniformly throughout the Group and take into account any eventual collateralisation. The transfer risk inherent in loans to borrowers in foreign countries (country risk) is valued using an internal rating system which takes into consideration the respective economic, political and regional situation.

In analogous application of IAS 36, project financing in the tourism sector (especially hotels and cable car rail systems) and commercial project financing were submitted to an impairment test. Project financing comprises building leases to third-parties and use of buildings by third parties, the financing of which is serviced exclusively or primarily from the cash flows of the investment project over a long period of time and for which the collateralisation is predominately the investment project's assets. To this end, the recoverable amount was determined to be the maximum of the net selling price or value in use, whereby the value in use was determined based on the present value method of calculating the estimated future cash flows (discounted cash flow method) taking into account the customary financing ratio of equity to debt capital. If the carrying amount is over the determined recoverable amount, the impairment of value is reflected in an extraordinary write-off. This valuation method was also retroactively applied per 1 January 1998, whereby differences existing at that time were set off against equity.

The total amount of risk provisions for loans and advances appearing in the Balance Sheet is reported under assets as a separate item and presented as a line item deduction after loans and advances to credit institutions and loans and advances to customers. The risk provision for off-balance-sheet transactions (particularly guarantees as well as other lending commitments) is included in provisions. Risk provisions for securities and investments are made through direct valuation (depreciation or reversal of depreciation) of the carrying amounts.

3) Trading assets

Securities, derivatives and other financial instruments – held for trading purposes – are reported in the Balance Sheet at their fair values at the balance sheet date. Negative fair values (trading liabilities) are reported in the balance sheet item other liabilities. Products listed on the stock exchange are valued at the quoted prices. For unlisted products the fair values are determined according to the present value method or with the help of suitable options pricing models. All realised and unrealised gains from such positions are shown in the Income Statement under the net trading result. Also included in this item are interest and dividend income from the trading portfolio and the accrued funding interest.

4) Investments available for sale

Securities which, according to the Group's internal guidelines, are assigned neither to the trading portfolio nor to financial investments because they are defined as a liquidity reserve for business reasons are reported under this item according to the strict principle of lower of cost or market. The price gains of this portfolio – realised or unrealised – are included under other operating results.

5) Financial investments

This balance sheet item is comprised of bonds and other fixed-income securities, shares and other variable-yield securities, equity holdings and investments in associates as well as ownership rights in non-consolidated companies and property intended primarily for leasing to outside parties.

Investments in associates are valued according to the equity method and reported at the amount determined at the balance sheet date. Other equity holdings are valued at cost and, in cases where the impairment of value appears permanent, are written off accordingly.

Equity holdings that are intended for sale in the short to medium term are stated at their fair value (for listed equity holdings at the quoted price) at the balance sheet date.

All financial investments are reported at cost (for leased property less normal periodic depreciation). Depreciation is deducted for permanent impairment of value and if the reasons which led to the depreciation cease to apply, the depreciation is reversed back up to the original cost.

The derivative instruments used to hedge market, interest rate and currency risks are stated at the same value as the underlying asset of the transaction reported in the Balance Sheet.

6) Intangible fixed assets

This item is mainly comprised of goodwill arising on acquisition and software. These are reported at cost less amortisation and extraordinary write-offs. Software internally generated is capitalised if it is probable that future economic benefits associated with that item will flow to the Group. Software is amortised over the estimated useful life, which is generally set at 4 years as is the case for acquired software. Goodwill arising on acquisition after 1 January 1995 is amortised on a straight-line basis (for domestic financial service providers over 20 years, for foreign financial service providers over 15 years, for all other companies between 5 and 15 years) and recognised in the Income Statement. Goodwill arising on acquisition before 1 January 1995 is netted with equity. Extraordinary write-offs are recognised for impairments in value that are deemed permanent.

7) Tangible fixed assets

Tangible fixed assets – land and buildings, office furniture and equipment – are stated at cost less the depreciation corresponding to their estimated useful life. Extraordinary write-offs are recognised for impairments in value that are deemed permanent. The useful life of tangible fixed assets is presented in the following table:

	Useful life in years
Buildings	25–50
Office furniture and equipment	5–20
Computer hardware	4–5

8) Leasing

The leasing agreements in force in Erste Bank Group are almost exclusively finance leases, which means that all of the risks and rewards associated with the leased assets are transferred to the lessee. Pursuant to IAS 17, the lessor reports a claim against the lessee amounting to the present value of the contractually agreed payments and taking into account any residual amounts.

In the case of operating leases (in this type of lease the risks and rewards associated with the property remain with the lessor), the leased property is reported by the lessor under financial investments and depreciated in accordance with the principles applicable to the fixed assets involved. Leasing payments are recognised as revenue in the income statement in accordance with the period of use.

9) Debts evidenced by certificates

Debts evidenced by certificates are stated at their repayment or nominal amount. Bonds issued at a discount with long terms (e.g. zero coupon bonds) and similar debts evidenced by certificates are reported at their present value.

10) Provisions

Pursuant to IAS 19 (Employee Benefits), all employee benefits (pension and severance payment obligations plus anniversary bonuses) are determined using the projected unit credit method. The pension obligations for current employees and members of the Management Board of Erste Bank AG and Salzburger Sparkasse were transferred in 1998 to a retirement fund retroactively effective as per 1 January 1998. This transfer has already been accounted for in the IAS opening balance sheet of Erste Bank Group as per 1 January 1998. Furthermore, the pension obligations for current employees and members of the Management Board of S Bausparkasse were transferred to a retirement fund in 1999.

Consequently, the provisions are made solely for the pension obligations of retired employees and the obligations for disability pensions, which are still based on defined benefits.

The future obligations are valued according to actuarial expert opinions. This calculation takes into account not only those pensions and vested rights to future pension payments known at the balance sheet date but also anticipated future rates of increase in salaries and pensions. The most important parameters based on actuarial computation of pension obligations are a discount rate (long-term capital market interest rate) of 5.5% annually and a raise in salary inputting pension payments of 3.5% annually for active employees. The parameters for pension provisions for retirees (for this portion there is no transfer to a pension fund) are a discount of 5.5% and an anticipated pension increase of 1% annually. The assumed retirement age is 55 for women and 60 for men. The calculation of the severance payment obligation and anniversary bonuses is based on a discount rate of 5.5% and a raise in salary of 3.5%.

All employee benefits (pension and severance payment obligations plus anniversary bonuses) are calculated in accordance with the 1999 mortality charts AVÖ 1999 P – Rechnungsgrundlagen für die Pensionsversicherung – Pagler & Pagler, which reflect the increased average life expectancy.

Other provisions are made for contingent liabilities payable to outside parties in the amount of the anticipated utilisation of benefits.

11) Taxes on income – deferred taxes

Taxes on income are reported and calculated in conformity with IAS 12. Assets and liabilities stemming from taxes on income are included in the items other assets and provisions. Deferred tax assets and liabilities are stated at the tax rates at which it is expected that the taxes will be paid to or credited by the respective tax authorities.

In calculating deferred taxes, the liability method based on temporary differences, which compares the amounts stated for assets and liabilities in the Balance Sheet with the amounts used in the taxation of the respective Group company, is used. Variances in these amounts lead to temporary differences in value, for which deferred tax assets or deferred tax liabilities are to be reported regardless of when such differences cease to exist. The deferred taxes for the various

Group companies are calculated at the country-specific future tax rates to be applied. The deferred tax assets and deferred tax liabilities of any one company are netted if the same tax office collects the taxes on income.

A deferred tax asset for unused tax losses is recognised if it is likely that the same company will generate taxable profits in periods for which the unused tax losses can be utilised. Deferred taxes are not discounted.

Information on the Group Balance Sheet

12) Cash and balances with central banks

in EUR million	1999	1998
Cash in hand	284	336
Balances with central banks	656	333
Bills of exchange eligible for funding	–	71
Total	**940**	**740**

13) Loans and advances to credit institutions

in EUR million	1999	1998
Loans and advances to domestic credit institutions	5,739	5,229
Loans and advances to foreign credit institutions	4,556	7,880
Total	**10,295**	**13,109**

14) Loans and advances to customers

in EUR million	1999	1998
Loans and advances to domestic customers		
Public sector	1,858	2,721
Commercial customers	11,510	11,866
Private customers	7,324	7,313
Other	197	183
Loans and advances to foreign customers		
Public sector	527	424
Commercial customers	4,501	3,697
Private customers	230	195
Other	258	68
Total	**26,405**	**26,467**

This item includes receivables from finance lease agreements totalling EUR 1,501 million (1998: EUR 1,421 million). The gross investment in the leases is EUR 1,647 million (1998: EUR 1,536 million) and the related unearned finance income totals EUR 146 million (1998: EUR 115 million).

15) Risk provisions for loans and advances

in EUR million	As of 1 January	Changes in exchange rate	Allocations [2])	Use	Release [2])	Reclassification [+])	As of 31 Dec.
Specific risks	1,011	5	183	(247)	(83)	(45)	823
Country risks	114	6	3	(21)	(7)	(8)	87
General provisions	9	–	3	–	(1)	1	11
Subtotal	*1,134*	*11*	*188*	*(268)*	*(90)*	*(53)*	*921*
Suspended interest	64	1	21	(47)	(1)	3	43
Risk provisions for loans and advances [1])	*1,198*	*12*	*209*	*(314)*	*(91)*	*(49)*	*965*
Other provisions [3])	39	–	13	–	(1)	(1)	49
Provision for guarantees	15	–	1	(3)	(3)	(4)	6
Total risk provision	**1,252**	**12**	**224**	**(318)**	**(95)**	**(54)**	**1,020**

[+]) mainly due to branch spin-offs

[1]) Risk provisions for loans and advances are accounted in item 4 of the Balance Sheet

[2]) Allocations to and releases of specific risks, country risks, general provisions and provisions for guarantees are accounted for the Income Statement in the item risk provisions for loans and advances. Suspended interest is netted with net interest income. The allocations to and releases of risk provisions that are not assigned to lending business are reported in the item other operating results

[3]) Includes provisions for legal proceedings, statements made in offering circulars, risks associated with investments and others

Loans and advances with suspended or adjusted interest amounted to EUR 685 million as of 31 December 1999.

16) Trading assets

in EUR million	1999	1998
Bonds and other fixed-income securities		
Listed	940	1,197
Unlisted	47	55
Shares and other variable-yield securities		
Listed	117	100
Unlisted	179	172
Positive fair value from derivative financial instruments		
Currency transactions	18	12
Interest rate transactions	94	106
Other transactions	2	6
Total	**1,397**	**1,648**

17) Investments available for sale

in EUR million	1999	1998
Bonds and other fixed-income securities		
Listed	1,525	2,120
Unlisted	2,544	911
Shares and other variable-yield securities		
Listed	37	53
Unlisted	293	140
Total	**4,399**	**3,224**

18) Financial investments

in EUR million	1999	1998
Bonds and other fixed-income securities		
Listed	4,477	3,019
Unlisted	926	1,166
Shares and other variable-yield securities		
Listed	272	165
Unlisted	728	345
Investments		
In non-consolidated subsidiaries	12	16
In associates accounted for at equity		
Credit institutions	145	57
Non-credit institutions	124	146
In other investments		
Credit institutions	105	111
Non-credit institutions	89	38
Other financial investments	517	502
Total	**7,395**	**5,565**

The item other financial investments includes the carrying amounts of assets subject to operating lease agreements amounting to EUR 214 million (1998: EUR 213 million).

19) Fixed assets and financial investments schedule

in EUR million	At cost as of 1 Jan 1999	Currency translation (+/–)	Additions (+)	Disposals (–)	At cost as of 31 Dec 1999
Intangible fixed assets	**490.5**	**0.0**	**134.2**	**(73.4)**	**551.3**
a) Goodwill	286.1	0.0	69.9	(41.2)	314.8
b) Other	204.4	0.0	64.3	(32.2)	236.5
Tangible fixed assets	**1,008.6**	**(0.5)**	**148.8**	**(100.4)**	**1,056.5**
a) Land and buildings	573.2	(0.3)	95.3	(41.3)	626.9
b) Office furniture and equipment	435.4	(0.2)	53.5	(59.1)	429.6
Financial investments	**1,024.8**	**0.0**	**232.1**	**(94.6)**	**1,162.3**
a) Non consolidated subsidiaries	17.9	0.0	8.8	(11.1)	15.6
b) Associates accounted for at equity	209.9	0.0	127.8	(61.0)	276.7
c) Other investments	182.8	0.0	57.3	(15.9)	224.2
d) Other financial investments (particularly property used by outside parties)	614.2	0.0	38.2	(6.6)	645.8
Total	**2,523.9**	**(0.5)**	**515.1**	**(268.4)**	**2,770.1**

in EUR million	Accumulated depreciation (–)	Currency translation (+/–)	Scheduled depreciation current year (–) *)	Extra-ordinary write-offs current year (–)	Reversal of Extra-ordinary write-offs current year (+)	Carrying amounts as of 31 Dec 1999	Carrying amounts as of 31 Dec 1998
Intangible fixed assets	**(223.4)**	**0.0**	**(43.2)**	**(0.1)**	**0.0**	**327.9**	**310.5**
a) Goodwill	(75.5)	0.0	(19.0)	0.0	0.0	239.3	229.6
b) Others	(147.9)	0.0	(24.2)	(0.1)	0.0	88.6	80.9
Tangible fixed assets	**(474.0)**	**0.1**	**(55.7)**	**(2.0)**	**0.0**	**582.5**	**591.9**
a) Land and buildings	(185.5)	0.0	(17.3)	(1.7)	0.0	441.4	406.5
b) Office furniture and equipment	(288.5)	0.1	(38.4)	(0.3)	0.0	141.1	185.4
Financial investments	**(169.3)**	**0.0**	**(18.4)**	**(6.2)**	**10.2**	**993.0**	**870.0**
a) Non consolidated subsidiaries	(3.9)	0.0	0.0	(2.1)	0.0	11.7	16.2
b) Associates accounted for at equity	(7.1)	0.0	0.0	(0.3)	0.0	269.6	203.2
c) Other investments	(29.3)	0.0	(1.3)	(3.8)	10.2	194.9	148.3
d) Other financial investments (particularly property used by outside parties)	(129.0)	0.0	(17.1)	0.0	0.0	516.8	502.3
Total	**(866.7)**	**0.1**	**(117.3)**	**(8.3)**	**10.2**	**1,903.4**	**1,772.4**

*) Including depreciation of companies that are not engaged in the banking business shown in other operating results.

20) Other assets

in EUR million	1999	1998
Deferred interest and commissions	815	742
Prepaid expenses	45	17
Deferred taxes	261	299
Sundry assets	545	474
Total	**1,666**	**1,532**

21) Deferred tax assets and liabilities

	Deferred tax assets		Deferred tax liabilities	
in EUR million	1999	1998	1999	1998
Pertaining to temporary differences in the following items:				
Risk provisions	20	38	–	–
Financial investments	25	20	–	–
Fixed assets	40	41	–	–
Provisions for employee benefits	59	72	–	–
Other provisions	5	5	–	–
Tax loss carry forward	100	106	–	–
Other	11	17	(6)	(9)
Total	**261**	**299**	**(6)**	**(9)**

For temporary differences in connection with investments amounting to EUR 80.4 million no deferred taxes were calculated as the requirements of IAS 12.39 were met.

Deferred tax assets are reported under other assets, deferred tax liabilities under provisions.

22) Amounts owed to credit institutions

in EUR million	1999	1998
Amounts owed to domestic credit institutions	9,664	9,202
Amounts owed to foreign credit institutions	10,907	12,589
Total	**20,571**	**21,791**

23) Amounts owed to customers

in EUR million	Domestic		Foreign		Total	
	1999	1998	1999	1998	1999	1998
Savings deposits	12,731	13,341	245	272	12,976	13,613
Other						
Public sector	190	225	137	174	327	399
Commercial customers	2,177	2,306	1,898	1,138	4,075	3,444
Private customers	1,177	1,187	631	527	1,808	1,714
Other	304	201	43	112	347	313
Total	**16,579**	**17,260**	**2,954**	**2,223**	**19,533**	**19,483**

24) Debts evidenced by certificates

in EUR million	1999	1998
Mortgage and municipal bonds	863	1,037
Bonds	4,090	3,454
Certificates of deposit	991	239
Profit-sharing rights	36	38
Other	380	328
Total	**6,360**	**5,096**

25) Provisions

in EUR million	1999	1998
a) Employee benefits	612	653
b) Other provisions	98	116
Total	**710**	**769**

a) Employee benefits in EUR million	Pension	Severance payments	Anniversary bonuses	Total provision for employee benefits
Net present value = provision as of 1 Jan 1998	**518**	**124**	**22**	**665**
Service cost	1	6	2	9
Interest cost	28	6	1	35
Payments	(38)	(19)	(3)	(60)
Actuarial gains and losses	–	4	1	5
Net present value = provision as of 31 Dec 1998	**509**	**121**	**23**	**653**
Settlements	(22)	(4)	(1)	(27)
Service cost	–	7	2	9
Interest cost	26	6	1	33
Payments	(41)	(20)	(2)	(63)
Actuarial gains and losses	26	10	(3)	33
Net present value as of 31 December 1999	**498**	**120**	**20**	**638**
Unrecognised actuarial gains and losses	(26)	–	–	(26)
Provision for employee benefits as of 31 December 1999	**472**	**120**	**20**	**612**

Pension provisions

Applying the new mortality charts AVÖ 1999 P – Rechnungsgrundlagen für die Pensionsversicherung Pagler & Pagler, which assume a longer life expectancy, the present value for future benefits for pension obligations as of 31 December 1999 were EUR 498 million. The difference of EUR 26 million between this amount and the pension provisions reported in the Balance Sheet essentially results from applying the current mortality charts and remains within the limits defined in IAS 19.92.

These new mortality charts were also applied in calculating the provisions for severance payments and anniversary bonuses.

The settlement of pension obligations resulted from the spin-off of provincial branches and the transfer of pension entitlements of employees and board members of S Bausparkasse into a pension fund. The expense (effecting profit) of planned settlement amounts to EUR 1.23 million. The settlement of severance payments and anniversary bonuses only resulted from the spin-off of Erste Bank branches, the profit resulting thereof amounted to EUR 0.83 million.

b) Other provisions

in EUR million	As of 1 Jan	Allocation	Use	Release	Reclassifications	Currency translation	As of 31 Dec
Provision for taxes *)	32	10	(14)	(4)	–	–	24
Provision for off-balance sheet and other risks	54	14	(4)	(4)	(5)	1	56
Various other provisions	30	3	(7)	(8)	–	–	18
Total other provisions	**116**	**27**	**(25)**	**(16)**	**(5)**	**1**	**98**

*) Regarding deferred tax liabilities, we refer to entries presented in Note 21.

Included under reclassifications are risk provisions for loans and advances which were transferred as part of the spin-off of branches.

26) Other liabilities

in EUR million	1999	1998
Trading liabilities		
Currency transactions	3	58
Interest rate transactions	51	131
Other transactions	2	8
Deferred income	77	102
Accrued interest and commissions	470	510
Sundry liabilities	834	648
Total	**1,437**	**1,457**

Sundry liabilities include current balances from the securities business, derivatives business and from ongoing payment transactions as well as other offset liabilities.

27) Subordinated capital

in EUR million	1999	1998
Subordinated liabilities	1,213	1,120
Supplementary capital	755	646
Total	**1,968**	**1,766**

28) Equity

The total issued capital as of 31 December 1999 amounts to EUR 322,745,863.10 and is divided into:

44,360,799 voting bearer shares	EUR	322,382,498.93
5,000 participation certificates	EUR	363,364.17
Total subscribed capital	**EUR**	**322,745,863.10**

The Extraordinary General Meeting held on 21 August 1997 approved **authorised share capital** of EUR 87,207,401.00 for a period of five years from the date of registration (4 October 1997) of the amendment of the Company's Articles of Association in the Commercial Register. In accordance with this authorisation, at the meeting of the Supervisory Board on 29 October 1997 it was resolved to increase the share capital by EUR 21,492,162.23 by issuing voting bearer shares, bringing the unused authorised capital as of 31 December 1999 to EUR 65,715,238.77.

The Extraordinary General Meeting of 21 August 1997 also approved a **conditional capital increase** of EUR 43,603,700.50 in case convertible bond holders exercise their conversion rights. Furthermore, authorisation was given to issue participation capital up to a nominal amount of

EUR 72,672,834.17 over a period of five years from the date of registration (4 October 1997) of the amendment of the Company's Articles of Association in the Commercial Register.

The General Meeting held on 1 June 1999 resolved the conversion of share capital to shares with no par value and to convert nominal capital into Euro.
As all own shares held in the Company's own portfolio are reported under trading assets they are not netted with equity.
The composition of **Erste Bank Group's qualifying capital** as determined pursuant to the Austrian Banking Act showed the following changes over the previous year:

in EUR million	1999	1998
Subscribed capital (less shares held in own portfolio)	322	322
Reserves	1,580	1,432
– Intangible fixed assets	(149)	(143)
Core capital (Tier 1)	**1,753**	**1,611**
Participation capital	–	–
Eligible subordinated liabilities	1,341	1,300
Revaluation reserve	91	101
Qualifying supplementary capital (Tier 2)	**1,432**	**1,401**
Short-term subordinated capital (Tier 3)	**295**	**257**
Total qualifying capital	**3,480**	**3,269**
Deductions according to Section 23 (13) and Section 29 (1–2) Austrian Banking Act	(184)	(93)
Total eligible qualifying capital	**3,296**	**3,176**
Capital requirement	2,440	2,336
Surplus capital	856	840
Cover ratio in %	135.1	136.0
Tier 1 ratio in %	**6.3**	**6.1**
Solvency ratio in %	**10.8**	**11.0**

The risk-weighted basis pursuant to Section 22 (1) Austrian Banking Act and the resulting capital requirement show the following changes:

in EUR million	1999	1998
Risk-weighted basis acc. to Section 22 Austrian Banking Act	27,750	26,488
Thereof 8% minimum capital requirement	2,220	2,119
Capital requirement for the open foreign exchange position acc. to Section 26 Austrian Banking Act	28	16
Capital requirement for the trading book acc. to Section 22 b (1) Austrian Banking Act	192	201
Total capital requirement	**2,440**	**2,336**

Information on the Group Income Statement

29) Net interest income

in EUR million	1999	1998
Interest income from		
Lending and money market transactions with credit institutions	678.6	727.1
Lending and money market transactions with customers	1,354.6	1,500.8
Fixed-income securities	514.1	468.1
Other interest and similar income	71.2	39.9
Current income from		
Shares and other variable-yield securities	42.5	31.5
Investments		
In non-consolidated subsidiaries	5.5	3.5
In associates accounted for at equity	26.7	25.1
In other investments	12.4	8.4
Property used by outside parties	26.4	22.2
Total interest and similar income	**2,732.0**	**2,826.6**
Interest expenses for		
Amounts owed to credit institutions	(923.9)	(1,001.5)
Amounts owed to customers	(595.8)	(644.2)
Debts evidenced by certificates	(335.1)	(331.0)
Subordinated capital	(111.2)	(102.0)
Other	(29.7)	(15.1)
Total interest and similar expenses	**(1,995.7)**	**(2,093.8)**
Net interest income	**736.3**	**732.8**

Net interest income also includes the net interest income from finance leasing, which totals EUR 40 million (1998: EUR 39 million).

30) Risk provisions for loans and advances

in EUR million	1999	1998
Allocation to risk provisions in lending business	(189.2)	(210.1)
Release of risk provisions in lending business	93.3	133.6
Direct write-off of loans and advances	(41.9)	(32.6)
Amounts received against written off loans and advances	5.3	4.6
Total	**(132.5)**	**(104.5)**

The above figures do not include the allocations to and releases of risk provisions netted in net interest income (suspended interest). See also explanation accompanying Note 15.

The allocations to and releases of risk provisions that are not assigned to lending business are reported in the item other operating results (see Note 34).

Allocation and release of provisions for off-balance-sheet credit risks are included in the above figures.

31) Net commission income

in EUR million	1999	1998
Lending business	36.8	34.0
Payment transfers	47.7	47.0
Securities transactions	142.9	137.9
Thereof: Investment fund transactions	*92.6*	*89.8*
Custody fees	*8.1*	*18.0*
Brokerage	*42.2*	*30.1*
Insurance business	25.4	21.0
Other	69.6	66.6
Total	**322.4**	**306.5**

32) Net trading result

in EUR million	1999	1998
Securities trading	63.0	69.4
Derivatives	20.1	13.7
Foreign exchange	30.6	49.8
Total	**113.7**	**132.9**

The net trading result is comprised of the results of trading portfolio activities and is based on a mark to market valuation. Listed products are valued by applying the quoted rate at the balance sheet date and for unlisted products the fair values are determined according to the present value method or using suitable options pricing models. All realised and unrealised gains are reported in the Income Statement under the net trading result. Also included in this item are interest and dividend income stemming from the trading portfolio and the incurred funding interest.

33) General administrative expenses

in EUR million	1999	1998
Personnel expenses	(487.8)	(512.6)
Other administrative expenses	(255.2)	(245.5)
Depreciation and amortisation of fixed assets	(78.7)	(83.5)
Total	**(821.7)**	**(841.6)**

Personnel expenses

in EUR million	1999	1998
Wages and salaries	(346.0)	(365.1)
Compulsory social security contributions	(86.0)	(89.7)
Expenses for pensions and other employee benefits	(49.0)	(49.0)
Other personnel expenses	(6.8)	(8.8)
Total	**(487.8)**	**(512.6)**

Average number of employees on payroll during the financial year

(weighted according to extent of employment)

	1999	1998
Employed by Group	**8,847**	**9,512**
Domestic	7,294	7,912
Foreign countries	1,553	1,600

The employees of fully consolidated companies are included in the above table. As part of spinning off branch offices in 1999, 299 employees were transferred to savings banks in provincial capitals which are not fully consolidated.

In addition to the above-mentioned headcount, an average staff of 282 (1998: 294) was employed in the Group's companies that are not engaged in the banking business (hotel and recreation segment).

At the balance sheet date, loans and advances to members of the Management Board totalled EUR 0.05 million (1998: EUR 0.3 million). Loans to members of the Supervisory Board amounted to EUR 0.6 million (1998: EUR 0.5 million). The interest rates and other conditions (maturity dates and collateralisation) are customary. Of the loans extended to members of the Management Board, EUR 0.1 million (1998: EUR 0.04 million) were repaid during the financial year; of the loans to members of the Supervisory Board, EUR 0.3 million (1998: EUR 0.2 million) were repaid.

Remuneration paid to the members of the Management Board active during financial 1999 (including the profit-related bonus for 1999) totalled EUR 1.8 million (1998: EUR 1.8 million). In financial 1999 EUR 0.5 million (1998: EUR 0.4 million) were paid out to former members of the Management Board and their dependants. The total remuneration paid to members of the Supervisory Board of Erste Bank in the financial year amounted to EUR 0.4 million (1998: EUR 0.3 million).

Other administrative expenses

in EUR million	1999	1998
IT expenses	(49.7)	(39.5)
Expenses for office space	(46.6)	(50.2)
Office operating expenses	(48.6)	(54.7)
Advertising/marketing	(31.3)	(31.6)
Legal and consulting costs	(33.9)	(25.5)
Sundry administrative expenses	(45.1)	(44.0)
Total	**(255.2)**	**(245.5)**

Depreciation of fixed assets

in EUR million	1999	1998
Software & intangible assets	(24.3)	(18.6)
Real estate used by the Group	(17.2)	(14.2)
Office furniture and equipment and other assets	(37.2)	(50.7)
Total	**(78.7)**	**(83.5)**

34) Other operating results

in EUR million	1999	1998
Other operating income		
Income from valuation/sale of securities held as investments available for sale	7.5	19.3
Income from valuation/sale of securities held as financial investments	1.5	4.0
Income from valuation/sale of investments	24.8	51.6
Gains from spinning off branch offices	44.0	–
Sales revenue from companies ancillary to banking business and companies not engaged in the banking business	45.7	30.1
Income from release of other provisions/risks	1.9	5.7
Income relating to external sales of suppliers	1.2	1.9
Sundry operating income	32.9	32.9
Total other operating income	**159.5**	**145.5**
Other operating expenses		
Expenses from valuation/sale of securities held as investments available for sale	(21.9)	(11.5)
Expenses from valuation/sale of securities held as financial investments	(3.5)	(27.6)
Expenses from valuation/sale of investments	(3.9)	(33.1)
Amortisation of goodwill	(12.4)	(10.6)
Expenses from companies ancillary to banking business and companies not engaged in the banking business	(4.3)	(6.9)
Expenses from allocation to other provisions/risks	(14.7)	(12.6)
Other taxes	(3.5)	(4.3)
Sundry operating expenses	(72.0)	(58.6)
Total other operating expenses	**(136.2)**	**(165.2)**
Total other operating results	**23.3**	**(19.7)**

35) Taxes on income

Taxes on income are made up of current taxes on income calculated in each of the Group companies based on the results as reported for tax purposes and the change in deferred taxes.

in EUR million	1999	1998
Current tax expense	(12.3)	(6.8)
Deferred tax expense	(36.7)	(52.0)
Total	**(49.0)**	**(58.8)**

The following reconciliation shows the relationship between the statutory income tax rate and the rate actually reported in the Income Statement:

in EUR million	1999
Net profit before tax	241.5
Income tax expense expected for the financial year at the domestic statutory tax rate (34%)	82.1
Impact of different foreign tax rates	(0.1)
Tax reductions due to tax-exempt earnings of investments and other tax-exempt income	(39.0)
Tax increases due to non-deductible expenses	3.4
Tax expense/income not attributable to the reporting period	2.6
Reported taxes on income and earnings	**49.0**

36) Appropriation of net profit

in EUR million	1999	1998
Net profit after minority interests	164.6	133.3
Allocation to reserves	(110.0)	(81.8)
Profit carried forward	0.5	0.2
Distributable profit of the parent company	**55.1**	**51.7**

It will be proposed to the General Meeting to be held 11 May 2000 that the owners of participation certificates be paid from the distributable profit a profit share of EUR 12.40 per participation certificate pursuant to Section 65 (5) of the Austrian Stock Corporation Act, that the shareholders be paid a dividend of EUR 1.24 per share and that the remaining profit be carried forward to the next year pursuant to Section 65 (5) of the Austrian Stock Corporation Act.

Earnings per share

Earnings per share is the amount representing net profit after minority interests divided by the average number of ordinary shares and participation certificates outstanding. Diluted earnings per share is an amount showing the maximum dilution effect possible in case the average number of shares has increased or may increase as a result of the issued subscription and conversion rights.

	1999	1998
Net profit (other minority interests) in EUR thousand	164,627	133,357
Thereof pertaining to shares in EUR thousand	164,462	133,224
Thereof pertaining to participation capital in EUR thousand	165	133
Average number of shares outstanding	43,994,534	44,172,171
Average number of participation certificates outstanding	4,057	3,854
Earnings per share in EUR	**3.74**	**3.02**
Earnings per participation certificate in EUR	**37.42**	**30.19**

The diluted earnings per share for 1999 and 1998 are identical with the above figures.

37) Other information

Segment reporting

The aim of segment reporting is to present a comprehensive view of Erste Bank Group's composition of income, cost and risk by

- business segments and
- geographical markets.

Due to the comprehensive reorganisation it is impracticable to provide figures for 1998 as the comparability would be restricted and therefore of limited relevance.

The basis for calculation is the internal profit contribution report by business areas. Income comprises net interest income, based on opportunity cost (market spread, mismatch), net commission income, net trading result, other operating results and the income on national equity allocated to the segments according to their risk-weighted assets.

Administrative expenses are derived from activity-based costing and comprise product costs, indirect costs and general overhead. Actual risk costs as reflected in the P&L are used to present the risk situation of the business year.

Reporting according to business segment covers the segments:

- Retail and Real Estate (activities in retail banking, small and medium-sized corporate customer, and real estate finance in Austria and Central Europe)
- Large Corporate Customers (key accounts in industry, trade and service sectors as well as international business outside Central Europe)
- Trading and Investment banking (investment banking, treasury, balance sheet management)
- Asset Gathering (investment funds, portfolio management, insurance business)
- Corporate Centre (fixed assets, other equity holdings, consolidating items).

Results for 1999 presented according to business segments

in EUR million	Retail and Real Estate	Large Corporate Customers	Trading and Investment banking	Asset Gathering	Corporate Centre	Total
Net interest income	511.9	178.0	39.6	0.9	5.8	736.3
Risk provisions for loans and advances	(95.7)	(31.7)	0.3	0.0	(5.4)	(132.5)
Net commission income	136.9	39.1	18.7	102.0	25.7	322.4
Net trading result	35.7	10.5	71.8	0.0	(4.3)	113.7
General administrative expenses	(586.5)	(97.4)	(83.8)	(44.5)	(9.5)	(821.7)
Other operating results	43.2	(4.9)	(10.1)	0.0	(4.9)	23.3
Pre-tax profit for the year	**45.5**	**93.7**	**36.5**	**58.4**	**7.5**	**241.6**
Taxes on income						(49.1)
Minority interests						(27.9)
Net profit after minority interests						**164.6**
Average risk-weighted assets	12,197.0	10,377.5	5,756.9	54.0	415.5	28,800.9
Average attributed equity	575.1	490.8	270.0	2.5	19.6	1,358.0
Cost/income ratio	85.7%	42.8%	64.4%	43.3%	34.9%	70.1%
RoE based on net profit before tax	7.9%	19.1%	13.5%	2,294.3%	38.1%	17.8%
RoE based on net profit after minority interests						12.1%
Thereof business with savings banks						
(based on net profit before tax)	3.9	6.8	7.7	12.9	0.0	31.4

The item business with savings banks includes:

- Direct business of the parent company Erste Bank AG with savings banks
- Underwriting business
- Savings bank business of the Group subsidiaries
- Investments in savings banks

Segment reporting according to geographical markets is based on the following breakdown:

- Austria
- Central Europe (Croatia, Czech Republic, Hungary, Slovakia, Slovenia)
- The Rest of Europe
- North America
- Central and South America
- Asia
- Others

Attribution to the different segments is determined by the country code (ISO code) assigned to each customer.

Results for 1999 presented according to geographical region

in EUR million	Austria	- Central Europe	Rest of Europe	North America	Central/ South America	Asia	Others	Total
Net interest income	547.0	54.1	67.0	39.3	5.2	13.1	10.5	736.3
Risk provisions for loans and advances	(106.9)	(5.4)	(9.8)	(5.8)	0.0	(4.2)	(0.3)	(132.5)
Net commission income	293.1	15.1	10.7	1.3	0.3	0.9	1.0	322.4
Net trading result	95.0	11.3	3.7	0.8	0.0	4.1	(1.3)	113.7
General administrative expenses	(700.0)	(56.5)	(34.2)	(18.2)	(2.2)	(7.1)	(3.6)	(821.7)
Other operating results	34.6	2.9	(7.0)	(7.1)	0.0	0.0	0.0	23.3
Net profit before tax	**162.8**	**21.6**	**30.3**	**10.3**	**3.3**	**6.9**	**6.4**	**241.6**
Risk-weighted assets	18,848.8	1,842.1	3,557.5	2,654.9	399.4	826.3	672.0	28,800.9

Assets and liabilities denominated in foreign currencies

in EUR million	1999	1998
Assets	17,988	19,448
Liabilities	14,660	18,252

As of 1 January 1999 (introduction of the euro) we consider foreign currencies to be those used outside the zone of the Monetary Union Members. The previous year’s figures meet the definition before the introduction of the euro.

Assets and liabilities in countries other than Austria show the following development

in EUR million	1999	1998
Assets	16,230	16,723
Liabilities	17,305	16,822

38) Loans and advances to and amounts owed to non-consolidated subsidiaries and investments

in EUR million	1999
Loans and advances to credit institutions	
Non-consolidated subsidiaries	–
Associates accounted for at equity	389
Other investments	852
Loans and advances to customers	
Non-consolidated subsidiaries	138
Associates accounted for at equity	314
Other investments	208
Investments available for sale	
Non-consolidated subsidiaries	–
Associates accounted for at equity	11
Other investments	8
Financial investments	
Non-consolidated subsidiaries	4
Associates accounted for at equity	138
Other investments	125
Amounts owed to credit institutions	
Non-consolidated subsidiaries	–
Associates accounted for at equity	872
Other investments	1,457
Amounts owed to customers	
Non-consolidated subsidiaries	29
Associates accounted for at equity	91
Other investments	44
Debts evidenced by certificates	
Non-consolidated subsidiaries	–
Associates accounted for at equity	26
Other investments	–
Subordinated capital	
Non-consolidated subsidiaries	–
Associates accounted for at equity	6
Other investments	–

39) Assets pledged as security

Assets in the amounts stated below were pledged as security for the following liabilities and contingent liabilities:

in EUR million	1999	1998
Amounts owed to credit institutions	32	–
Amounts owed to customers	32	29
Debts evidenced by certificates	1,409	1,642
Other liabilities	–	–
Contingent liabilities	–	–
Other obligations	–	–

The following assets were pledged as security for the above-mentioned liabilities:

in EUR million	1999	1998
Loans and advances to credit institutions	–	–
Loans and advances to customers	1,833	2,012
Trading assets	59	–
Investments available for sale	–	–
Financial investments	83	96
Fixed assets	–	–

40) Fiduciary transactions

The fiduciary transactions not reported in the Balance Sheet are broken down as follows:

in EUR Mio	1999	1998
Loans and advances to credit institutions	29	23
Loans and advances to customers	55	49
Investments available for sale	14	–
Financial investments	–	23
Assets held in trust	**98**	**95**
Amounts owed to credit institutions	70	95
Amounts owed to customers	13	–
Debts evidenced by certificates	15	–
Liabilities held in trust	**98**	**95**

41) Risk Management Policies

Organisation of risk management at Erste Bank

Market and credit risks for the whole Group are measured by a team in the Controlling and Risk Management Division based on Value-at-Risk. The department **Central Risk Management** acts as a central and independent risk control unit as required by the Austrian Banking Act and sets up Group guidelines for processes relating to risk management.

The decentralised unit **Market Risk Management** within the Treasury division is responsible for the day-to-day control of **market risk** associated with trading activities. This unit monitors market risk limits and counterparty limits. Other main duties include risk reporting, trading support, legal support, product testing processes and – in co-ordination with Central Risk Management – market risk management.

The responsibility for **credit risk** management lies with the two divisions **Credit Risk Management Domestic** and **Credit Risk Management International**.

Depending on the size and level of trading activities, foreign branch offices and subsidiaries either have their own risk management units or are covered by the decentralised unit **Market Risk Management**.

The Treasury division is also in charge of measuring the market risks relating to the Banking Book. The unit **Balance Sheet Management** submits monthly reports to the Asset Liability Committee (ALCO) on the interest rate risk of the banking book. These reports serve as the basis for taking decisions to adjust the interest rate risks inherent in the term structure of the balance sheet.

Pursuant to the provisions laid down in the Austrian Banking Act, the ultimate responsibility for risk management lies with the Management Board as a whole. The Management Board carries out this duty in part by participating in the work of the Risk Committee. Since its implementation in February 1998 the Risk Committee has met on a quarterly basis. This central committee takes the strategic decisions on risk management in Erste Bank Group.

According to Erste Bank's Rulebook, the duties of the Risk Committee are to approve amendments to Erste Bank's Rulebook and note exceptions thereto, perform capital allocation at the bank level, set an aggregate bank risk limit based on the risk absorbing capacity of Erste Bank, set the aggregate limit based on the Value-at-Risk for market risk activities on the Trading Book, define medium-term objectives for risk management and discuss progress and issues in risk management.

Policies and procedures — Erste Bank's Rulebook

The procedures relating to risk management at Erste Bank are laid down in Erste Bank's Rulebook, a set of rules applied throughout the entire Group. The goal is twofold: to minimise operational risks and to create a consistent basis for the quality of data on market and credit risk activities. These rules are consistent with commonly applied international standards such as G30/Derivatives – Practices and Principles, the German Bundesamt für das Kreditwesen / Minimum Requirements for Trading Book Activities and GARP/Generally Accepted Risk Principles.

Market risk

Fluctuations in interest rates, exchange rates, share prices and commodities prices create market risks. Market risks derive from short-term trading (Trading Book) in instruments whose prices are fixed daily as well as from the traditional banking business (Banking Book). All market risk limits in Erste Bank are statistically consistent with the aggregate Value-at-Risk limit covering all market risks in Erste Bank. Limit compliance is checked at several stages both by decentralised risk management units and by Central Risk Management. A key component in defining the limits is estimating the potential losses that could be caused by market movements. The **Value-at-Risk** at the Group level is calculated on a daily basis and reported to the Management Board.

Value-at-Risk is the maximum statistical loss that the bank must expect at a certain confidence level from holding a trading position for a specific period of time (usually one or ten days). Unexpected market movements can have a great impact on the value of a trading position and result in significant losses or gains. Consequently, in addition to the purely statistical risk measurement applying Value-at-Risk Erste Bank also performs stress testing according to the "historical worst" method. The stress value is defined as the maximum loss in value that the current portfolio would have suffered from strong market movements that actually occurred in the past.

Value-at-Risk of trading portfolio at balance sheet date (31 Dec 1999) by risk-taking unit

all VaR figures in EUR million	Total	Interest	Currency	Shares	Commodity	Volatility
Group	**6.1**	**2.3**	**0.3**	**5.0**	**0.5**	**1.0**
Treasury Vienna	5.0	1.9	0.4	4.7	0.2	0.1
Investment banking Vienna	1.4	0.0	0.1	1.2	0.3	0.6
Activities abroad	0.1	0.7	0.2	0.0	0.0	0.3

Credit risk

Credit risk results from traditional lending business as well as from trading in market risk instruments. In future, credit risk will be measured in the Central Risk Management department based on credit value-at-risk (currently partly implemented). In Erste Bank Credit Value-at-Risk is defined as the maximum loss the current credit portfolio is statistically expected to suffer once every 20 years. Calculations are based on a one-year time horizon and confidence level of 95%.

In 1999 the Bank introduced a customer rating system for corporate customers with a scale from 1 to 10 as part of a project to introduce new creditworthiness categories. This new rating system is based on the probability of default. For individuals the five-step-scale system will be maintained until Erste Bank switches to a scoring model in line with international practice.

Operational risk

Operational risks are potential losses that cannot be attributed to either market or credit risk. In accordance with current practice in most international banks, line management is responsible for operational risks.

In late 1999 Erste Bank paved the way for the initial bank-wide identification and measurement of operational risks with the support of consultants. A project was set up in March 2000 in order to establish the data necessary for rational cost-benefit decisions on measures to reduce, limit and mitigate operational risks (e.g. for possible insurance solutions). This data will also allow us to integrate operational risks into planning, pricing and reporting.

Risk-absorbing capacity and risk-adjusted performance measurement

The overall measure of risk applied at bank as well as Group level is the **Economic Capital** that a bank has to hold in order to cover risk. This amount is defined as the annual loss which, with a very high probability, will not be exceeded. The level of probability is determined on the basis of capital market default analyses. The objective of calculating this figure is to determine the amount of capital needed in order to secure solvency of Erste Bank even in extreme loss scenarios. Furthermore, this figure enables comparative measurement and aggregation of all risks.

The central instrument for securing the Bank's solvency is **risk-absorbing capacity.** In this calculation, a multiple-stage process is used to compare the Economic Capital to the resources (earning power, reserves and equity) available to cover potential losses. Aside from the risk actually measured, a safety buffer and the existing risk limits are taken into account. Risk-absorbing capacity thus serves as a limit for all risk activities in Erste Bank.

Economic Capital is also a substantial component used in calculating the risk-adjusted return on capital (RAROC). This figure compares returns with the risks that are taken in order to achieve them. In this ratio, Economic Capital is used as risk measure. Full implementation of RAROC will allow the entire bank to be managed on the basis of risk/return ratios.

If the risk-adjusted return of a business activity is above Erste Bank's equity costs, the activity constitutes a positive contribution to increasing enterprise value. Here, the equity costs are determined based on the earnings expectations of our shareholders. Growth stimulation can thus be applied specifically in those areas making positive contributions to enterprise value. In this way, Economic Capital and RAROC combine risk limitation aimed at preserving the Bank's solvency and active risk and capital management geared towards increasing enterprise value.

Concentration of assets

The concentration of assets according to their gross amounts as of 31 December 1999

in EUR million	Total loans & advances to credit institutions and customers (incl. fixed-income sec.)	Guarantees/ letters of credit	Total
Banking and insurance	15,609	686	16,295
Private customers	7,736	65	7,801
Public administration	6,957	53	7,010
Manufacturing	3,199	566	3,765
Real estate	4,635	191	4,826
Retail	2,730	282	3,012
Construction	1,005	450	1,455
Hotels and restaurants	1,230	135	1,365
Transport and telecommunications	1,325	156	1,481
Energy and water supply	687	85	772
Other	2,045	244	2,289
Total	**47,158**	**2,913**	**50,071**

The changes in risk provisions are explained in Notes 15 and 30.

Interest rate risk

Interest rate risk is the change in the fair value of fixed-income financial instruments caused by changes in market interest rates. This risk occurs when the maturity ranges of the fixed-income assets and liabilities (including transactions not recognised in the balance sheet) are not matched.

In order to account for the interest rate risk, fixed-income financial instruments (including derivative products) are entered as a hedge in the corresponding maturity ranges in accordance with their remaining maturity or term until expiration of the interest rate lock-up period.

The next table shows the open fixed-income positions of Erste Bank Group which are not attributed to the trading book. Positions with a positive value show the fixed-income risk on the asset side (i.e. there is a surplus in the asset positions); negative values represent the surplus on the liability side.

in EUR million	1–2 years	2–4 years	4–6 years	6–9 years	>9 years
Interest rate lock-up gap as of 31 December 1999	2,612	1,286	102	942	(41)

42) Total volume of unsettled derivatives as of 31 December 1999

The following table shows the derivatives not yet settled at the balance sheet date broken down by product.

	Nominal amount by remaining maturity				Fair value	
in EUR million	< 1 year	1–5 years	> 5 years	Total	Positive	Negative
Interest rate contracts						
OTC products:						
– Interest rate options						
Purchase	831	2,676	1,622	5,129	–	–
Sell	1,346	3,164	1,600	6,110	–	–
	(515)	**(488)**	**22**	**(981)**	**–**	**36**
– Interest rate swaps						
Purchase	52,813	16,083	7,342	76,238	–	–
Sell	57,045	13,022	6,172	76,238	–	–
	(4,232)	**3,061**	**1,170**	**–**	**–**	**16**
– FRA's						
Purchase	29,213	160	–	29,372	–	–
Sell	27,066	2,306	–	29,372	–	–
	2,147	**(2,147)**	**–**	**–**	**2**	**–**
Listed products						
– Futures						
Purchase	474	–	4	478	–	–
Sell	101	583	316	999	–	–
	373	**(583)**	**(311)**	**(522)**	**5**	**–**
– Interest rate options						
Purchase	24	161	–	185	–	–
Sell	208	–	–	208	–	–
	(184)	**161**	**–**	**(23)**	**–**	**1**
Currency contracts						
OTC products:						
– Currency options						
Purchase	1,018	10	–	1,028	–	–
Sell	2,009	–	–	2,009	–	–
	(991)	**10**	**–**	**(981)**	**–**	**3**
– Currency swaps						
Purchase	14,870	259	321	15,450	–	–
Sell	14,624	586	250	15,460	–	–
	245	**(327)**	**71**	**(11)**	**–**	**37**
Listed products						
– Futures						
Purchase	–	–	–	–	–	–
Sell	–	–	–	–	–	–
	–	**–**	**–**	**–**	**–**	**–**

in EUR million	Nominal amount by remaining maturity < 1 year	1–5 years	> 5 years	Total	Positive	Fair value Negative
– Currency options						
Purchase	–	–	–	–	–	–
Sell	–	–	–	–	–	–
	–	**–**	**–**	**–**	**–**	**–**
Precious metal contracts						
OTC products:						
– Precious metal options						
Purchase	–	–	–	–	–	–
Sell	–	–	–	–	–	–
	–	**–**	**–**	**–**	**–**	**–**
Listed products						
– Futures						
Purchase	1	–	–	1	–	–
Sell	–	–	–	–	–	–
	1	**–**	**–**	**1**	**–**	**–**
– Precious metal options						
Purchase	–	–	–	–	–	–
Sell	19	–	–	19	–	–
	(19)	**–**	**–**	**(19)**	**–**	**–**
Securities-related transactions						
OTC products:						
– Stock options						
Purchase	35	10	–	45	–	–
Sell	147	23	53	222	–	–
	(111)	**(13)**	**(53)**	**(177)**	**3**	**–**
Listed products:						
Futures						
Purchase	21	–	–	21	–	–
Sell	24	–	–	24	–	–
	(3)	**–**	**–**	**(3)**	**–**	**–**
Stock options						
Purchase	71	–	–	71	–	–
Sell	247	–	–	247	–	–
	(176)	**–**	**–**	**(176)**	**–**	**2**
Total	**(3,466)**	**(326)**	**899**	**(2,893)**	**10**	**95**
Hereof OTC products	(3,457)	96	1,210	(2,151)	4	92
Hereof listed products	(9)	(422)	(311)	(742)	5	3

The derivatives listed above are also used in connection with the Group's asset and liability management. These transactions are entered into in order to hedge the market price fluctuations that could result, for example, from changes in market interest rates. In this case, hedging instruments include interest rate futures, mainly interest rate swaps. Currency fluctuations are hedged with currency swaps and currency futures.

43) Fair values of financial instruments as of 31 December 1999

In the following table, the fair values of the balance sheet items are compared with their carrying amounts. The fair value is the amount for which a financial instrument could be exchanged or settled between knowledgeable, willing parties in an arm's length transaction. In those cases where market prices were available, they were used in the valuation, otherwise internal valuation models were applied, in particular the present value method.

The fair value for loans and advances to credit institutions and customers and amounts owed to credit institutions and customers with a remaining maturity of less than one year was set at the carrying amount.

in EUR million	Fair Value	Carrying amount
Assets		
Cash and balances with central banks	940	940
Loans and advances to credit institutions	10,287	10,295
Loans and advances to customers	26,380	26,405
Trading assets	1,398	1,398
Investments available for sale	4,403	4,399
Financial investments	7,314	7,396
Liabilities		
Amounts owed to credit institutions	20,578	20,571
Amounts owed to customers	19,439	19,533
Debts evidenced by certificates	7,409	7,359
Trading liabilities (incl. in other liabilities)	56	56
Subordinated capital	1,981	1,968
Derivatives for hedging balance sheet items	(44)	–

44) Contingent liabilities and other obligations as of 31 December 1999

in EUR million	1999	1998
Contingent liabilities	2,994	2,387
– From guarantees	2,913	2,274
– Other	81	113
Other obligations	6,654	6,318
– Undrawn credit and loan commitments, promissory notes	5,002	5,226
– Amounts owed resulting from repurchase transactions	1,041	1,087
– Other	611	5

45) Breakdown of remaining maturities as of 31 December 1999

in EUR million	On demand	Up to 3 months	3 months – 1 year	1–5 years	more than 5 years
Loans and advances to credit institutions	269	6,640	1,644	1,197	545
Loans and advances to customers	1,702	2,930	3,340	6,448	11,985
Securities held in the trading portfolio	17	233	56	316	661
Securities held as investments available for sale	9	400	549	1,860	1,581
Securities held as financial investments	269	273	394	2,764	2,703
Total	**2,266**	**10,476**	**5,982**	**12,584**	**17,475**
Amounts owed to credit institutions	1,330	14,698	2,383	919	1,241
Amounts owed to customers	5,392	3,176	2,111	4,570	4,284
Debts evidenced by certificates	14	1,238	528	2,114	2,467
Subordinated capital	–	25	57	641	1,244
Total	**6,736**	**19,138**	**5,078**	**8,244**	**9,236**

Subsequent events

On 1 March 2000 Erste Bank signed a preliminary agreement for acquiring 52% of the share capital (56% of the voting rights) of esk spo itelna a.s., the Czech savings bank. esk spo itelna a.s. is the second-largest credit institution in the Czech Republic.

After the final purchase agreement is signed – which is expected to take place in May or June 2000 after the audited 1999 financial statements of esk spo itelna a.s. are available – Erste Bank has undertaken to pay a preliminary purchase price of EUR 529 million, of which

EUR 278 million is payable upon signing the final purchase agreement and EUR 251 million at the latest by 31 December 2001. The final purchase price depends on the equity of esk spo itelna a.s. according to the audited 1999 financial statements (any adjustments to the purchase price will be set off against the purchase price due on 31 December 2001). The portion of the purchase price due on 31 December 2001 can be called by the seller at an earlier date, in which case an annual discount rate of 4.75% will be applied.

Furthermore, Erste Bank made a commitment that either Erste Bank itself or one of its strategic partners or a member of the savings bank sector will pay in additional capital into companies of esk spo itelna Group totalling EUR 111 million within two years. It was also agreed that esk spo itelna a.s. would provide for a EUR 279 million credit financing programme at favourable conditions for the Czech real estate sector and a similar programme for the Czech economy for the same amount. Moreover, a venture capital fund with a total volume of EUR 28 million is to be set up.

46) Governing Bodies of Erste Bank der oesterreichischen Sparkassen AG

Supervisory Board

Members of the Supervisory Board

President Herbert SCHIMETSCHEK
Vice President Walter STAUFFER
2nd Vice President Karl KORINEK

Karl BLAB
Dietrich BLAHUT
Klaus BRAUNEGG
Dirk BRUNEEL
Elisabeth GÜRTLER
Werner HUTSCHINSKI
Theresa JORDIS
Dietrich KARNER
Heinz KESSLER
Michael KRAINZ
Axel Freiherr von RUEDORFFER
Jörg SCHNEIDER
Georg WINCKLER

Delegated by the Employee Council

Josef BAUER
Günter BENISCHEK
Christine BRANDSTETTER
Hedwig CHMELIK
Erika HEGMALA
Josef KRONEMANN
Ernst LUKESCH
Matthias SKERLAN (from 7 December 1999)
Heinrich WILDFELLNER (until 20 October 1999)

Representatives of the Supervisory Authority

Senate Councillor, State Commissioner Robert SPACEK
Deputy Municipal Director, Deputy State Commissioner Peter PILLMEIER

Management Board

Andreas TREICHL, Chairman
Elisabeth BLEYLEBEN-KOREN, Deputy Chairman
Reinhard ORTNER, Member
Franz HOCHSTRASSER, Member
Peter OSTERMANN, Member

47) Details of the Companies of Erste Bank Group as of 31 December 1999

Companies of Erste Bank Group

Equity and net income indicated have been prepared according to IAS and may deviate from the financial statements of the individual companies prepared according to national reporting policies.

Net income indicated is equivalent to net income after tax, in the case of tax affiliations to net income before tax.

Company, residence	Percentage of interest	Participation direct	Participation indirect	Equity in EUR million	Net income in EUR million	Profit transfer*)	Date of the balance sheet	Fin. statem. acc.to nat. legal requ.	Fin. statem. acc.to IAS
1) Credit institutions									
FULLY CONSOLIDATED COMPANIES									
Bausparkasse der österreichischen Sparkassen AG, Vienna	100.00	•		110.44	12.99	•	31/12/1999		•
DIE ERSTE & CONSTANTIA Beteiligungsfonds Aktiengesellschaft, Vienna	100.00	•		15.02	0.33	•	31/12/1999		•
Erste Financial Products Ltd., London	100.00	•		32.63	(0.05)		31/12/1999		•
Erste Bank (Malta) Limited, Sliema	100.00		•	67.00	4.12		31/12/1999		•
ERSTE Bank Hungary Rt., Budapest (group/including 2 subsidiaries)	98.56	•		40.47	0.17		31/12/1999		•
OTTHON Magyar-Osztrák Lakás-takarékpénztár Rt., Budapest	85.28		•	4.80	(1.38)		31/12/1999		•
ERSTE-SPARINVEST KapitalanlagegesmbH, Vienna	83.52	•	•	3.81	34.59	•	31/12/1999		•
S Wohnbaubank AG, Vienna (group/including 1 subsidiary)	76.55	•	•	28.60	1.62		31/12/1999		•
Salzburger Sparkasse Bank Aktiengesellschaft, Salzburg (group/including 10 subsidiaries)	73.11	•	•	158.05	20.21		31/12/1999		•
Erste Bank Sparkassen (CR) a.s., Prague	66.67	•		23.80	1.98		31/12/1999		•
Intermarket Factoring Bank Aktiengesellschaft, Vienna	54.00	•		14.12	1.09		31/12/1999		•
COMPANIES STATED AT EQUITY									
„SPAR-FINANZ“-Investitions- und Vermittlungs-AG, Vienna	50.00	•		3.77	0.17		31/12/1998	•	
Finanzierungs-Aktiengesellschaft österreichischer Sparkassen, Vienna	49.67	•	•	1.62	0.00		31/12/1998	•	
Trgovacka banka d.d., Zagreb	48.70	•		13.96	1.45		31/12/1998		•
Sparkasse Mühlviertel West Bank Aktiengesellschaft, Rohrbach	40.00	•		32.41	0.00		31/12/1998	•	
Bjelovarska banka d.d., Bjelovar	37.75	•		36.15	6.51		31/12/1998		•
MAZDA Bank Austria AG, Klagenfurt	33.33	•		3.29	0.30		31/12/1999	•	
Niederösterreichische Kapital-beteiligungsgesellschaft mbH, Vienna	30.00	•		2.76	0.17		30/09/1998	•	
Allgemeine Sparkasse Oberösterreich Bank AG, Linz	26.93	•	•	264.64	16.28		31/12/1999		•
Niederösterreichische Sparkasse Hainburg Bank AG, Hainburg	26.04	•		26.75	3.55		31/12/1998	•	
Niederösterreichische Kreditbürgschafts-gesellschaft mbH, Vienna	25.00	•		6.62	0.01		31/12/1998	•	
Sparkasse Bregenz Bank Aktiengesellschaft, Bregenz	25.00	•		14.69	3.48		31/12/1998	•	
Sparkasse Kremstal-Pyhrn Aktiengesellschaft, Kirchdorf	24.05	•		23.74	1.33		31/12/1998	•	
Beteiligungsfinanzierungs-Aktiengesellschaft, Vienna	22.78	•		17.53	2.09		31/03/1999	•	
Österreichische Hotel- und Tourismusbank Gesellschaft m.b.H., Vienna	18.75		•	26.27	0.43		31/12/1999	•	

Company, residence	Percentage of interest	Participation direct	Participation indirect	Equity in EUR million	Net income in EUR million	Profit transfer*)	Date of the balance sheet	Fin. statem. acc.to nat. legal requ.	Fin. statem. acc.to IAS
COMPANIES STATED AT COST									
Kapital-Beteiligungs Aktiengesellschaft, Vienna	15.00	•		8.68	0.20		30/09/1999	•	
Oesterreichische Kontrollbank AG, Vienna	12.89	•		203.57	18.87		31/12/1998	•	
Österreichische Investitionskredit AG, Vienna	11.26	•		232.12	15.61		31/12/1999	•	
Istrobanka a.s., Bratislava	10.00	•		33.81	(3.62)		31/12/1998		x
Kärntner Sparkasse Aktiengesellschaft, Klagenfurt	10.00	•		109.23	4.98		31/12/1998	•	
Sparkasse der Stadt Knittelfeld AG, Knittelfeld	9.00	•		25.39	1.76		31/12/1998	•	
Europay Austria Zahlungsverkehrssysteme GmbH, Vienna	2.70	•	•	30.73	11.23		31/12/1998	•	
BRE Bank Spolka Akcyjna, Warsaw	2.02	•		345.06	49.30		31/12/1998	•	

2) Financial institutions

Company, residence	Percentage of interest	Participation direct	Participation indirect	Equity in EUR million	Net income in EUR million	Profit transfer*)	Date of the balance sheet	Fin. statem. acc.to nat. legal requ.	Fin. statem. acc.to IAS
FULLY CONSOLIDATED COMPANIES									
EBV Leasing GmbH & Co KG, Vienna	100.00	•		0.45	2.87		31/12/1999		•
Erste Securities Polska S.A., Warsaw	100.00	•		2.47	(0.32)		31/12/1999		•
Immorent AG, Vienna (group/ including 164 subsidiaries)	100.00	•		239.06	14.75	•	31/12/1999		•
Erste Bank Investment Hungary Rt., Budapest (group/including 2 subsidiaries)	99.80	•	•	9.40	1.22		31/12/1999		•
Erste Securities Zagreb d.o.o., Zagreb	88.57	•		0.11	(0.25)		31/12/1999		•
CDI-Erste Central Europe Holding Gesellschaft m.b.H., Frankfurt am Main (group/including 6 subsidiaries)	65.10	•		0.74	0.09		31/12/1999		•
COMPANIES STATED AT EQUITY									
Erste Bank Artesia Securities Inc., New York	50.00	•		0.22	(0.48)		31/12/1999	•	
Leasfinanz AG, Vienna (group)	25.00	•		6.02	0.44		31/12/1998		•
COMPANIES STATED AT COST									
Österreichisches Volkswohnungswerk gemeinnützige GmbH, Vienna	100.00	•	•	18.64	1.30		31/12/1998	•	
STUWO Gemeinnützige Studentenwohnbau AG, Vienna	50.00		•	4.75	0.12		31/12/1998	•	
Neue Eisenstädter- gemeinnützige Bau-, Wohn- u. Siedlungsges.mbH, Eisenstadt	49.80	•		0.28	(0.24)		31/12/1998	•	
Wohnungseigentümer gemeinnützige Wohnbauges.mbH, St. Pölten	26.00	•	•	5.51	0.65		31/12/1997	•	
Wohnbauhilfe gemeinnützige GmbH, Graz	26.00		•	0.98	(0.59)		31/12/1998	•	
Gesellschaft für den Wohnungsbau gemeinnützige GmbH, Linz	20.00		•	6.19	0.66		31/12/1998	•	

3) Others

Company, residence	Percentage of interest	Participation direct	Participation indirect	Equity in EUR million	Net income in EUR million	Profit transfer*)	Date of the balance sheet	Fin. statem. acc.to nat. legal requ.	Fin. statem. acc.to IAS
FULLY CONSOLIDATED COMPANIES									
EB-IT-Erste Bank Informations-Technologie Ges.m.b.H., Vienna	100.00	•		0.07	0.00	•	31/12/1999		•
EB-Malta-Beteiligungen GmbH, Vienna	100.00	•		27.53	3.30		31/12/1999		•
EB-Restaurantsbetriebe Ges.m.b.H., Vienna	100.00	•		0.23	0.03	•	31/12/1999		•
Erste Bank Beteiligungen Gesellschaft m.b.H., Vienna (group/including 4 subsidiaries)	100.00	•		19.54	1.26		31/12/1999		•
S OM-Objektmanagement GmbH, Vienna (group/including 5 subsidiaries)	100.00	•		63.10	2.18	•	31/12/1999		•
Erste Investment Sp.z.o.o., Warsaw	100.00	•		0.07	(0.08)		31/12/1999		•
GZV-Gesellschaft für Zahlungsverkehr GmbH, Vienna	100.00	•		0.17	(0.02)	•	31/12/1999		•

Company, residence	Percentage of interest	Participation direct	indirect	Equity in EUR million	Net income in EUR million	Profit transfer*)	Date of the balance sheet	Fin. statem. acc.to nat. legal requ.	IAS
VMG-Erste Bank Versicherungsmakler GmbH, Vienna	100.00	•		1.24	0.04	•	31/12/1999		•
DIE ERSTE Vermögensverwaltungs Gesellschaft mbH, Vienna	100.00	•		(0.15)	(0.09)		31/12/1999		•
EB-Touristik Unternehmensbeteiligung AG, Vienna	100.00	•		3.75	0.24		31/12/1999		•
ECO Unternehmensbeteiligungs-Aktiengesellschaft, Vienna	100.00	•	•	11.77	0.19		31/12/1999		•
Gartenbau-Grundstücksverwertung GesmbH, Vienna	100.00	•	•	3.56	0.20		31/12/1999		•
Nova Reisebüro GmbH, Vienna	100.00	•		0.27	0.12		31/12/1999		•
S-Real Immobilienvermittlung GmbH, Vienna	100.00	•	•	0.60	0.11		31/12/1999		•
EB Beteiligungsservice GmbH, Vienna	100.00	•		0.02	0.00		31/12/1999		•
Erste Finance Ltd. (Jersey), Jersey	100.00		•	7.66	5.77		31/12/1999		•
S-Tourismusfonds Management AG, Vienna	98.69	•	•	75.95	3.15		31/10/1999		•
Industriegrundstücks-Verwaltungsges.m.b.H., Laxenburg	76.00	•		10.21	1.43		31/12/1999		•
SPARDAT Sparkassen-Datendienst Gesellschaft m.b.H., Vienna	72.22	•	•	3.05	1.23		31/12/1999		•
Sparkassenbeteiligungs und Service AG für Oberösterreich und Salzburg, Linz	69.25	•		18.23	0.25		31/12/1999		•
Sparkassen-Immobilienanlagen-Aktiengesellschaft, Vienna	64.06	•	•	12.91	1.30		30/06/1999		•
GESCO Gesellschaft für Unternehmenscommunication GmbH, Vienna	55.85	•		2.98	1.03		31/12/1999		•
BMG-Warenbeschaffungsmanagement GmbH, Vienna	55.85	•		0.00	0.00		31/12/1999		•
S-Informatik Gesellschaft m.b.H., Vienna	54.44	•	•	0.11	0.00		31/12/1999		•
Hotel ANANAS-Hotelbetriebsges.m.b.H. & Co KG, Vienna	41.49	•		0.20	(1.72)		31/12/1999		•
DIE ERSTE Immobilien AG, Vienna (group/including 2 subsidiaries)	25.00	•		176.62	4.36		31/12/1999		•
COMPANIES STATED AT EQUITY									
E-C-A Holding GmbH, Vienna	50.00	•		4.87	3.02		30/04/1999	•	
MAZDA Austria GmbH, Klagenfurt (group)	50.00	•		14.37	2.35		31/12/1998	•	
Logistik Zone Tirol GmbH, Hall	48.67	•		4.31	0.14		31/12/1998	•	
Sparkassen-Versicherung Aktiengesellschaft, Vienna	39.12	•	•	51.95	5.48		31/12/1998	•	
Sparkassen Haftungs AG, Vienna	35.61	•	•	0.21	0.00		31/12/1998	•	
Erste Wiener Hotel-AG, Vienna	35.15	•		23.38	(1.02)		31/12/1999	•	
RSV Beteiligungs-Gesellschaft m.b.H., Vienna (Lotto-Toto)	33.33	•		2.62	2.08		31/10/1999	•	
Tech-Tirol Technologiezentrum GesmbH & Co KG, Innsbruck	32.26	•		0.30	0.03		31/12/1998	•	
Vereinigte Pensionskasse AG, Vienna	26.78	•	•	14.06	0.72		31/12/1999	•	
Informations-Technologie Austria GmbH, Vienna	25.76	•	•	32.69	0.01		31/12/1999	•	
Vermreal Liegenschaftserwerbs- u. Betriebsges.mbH, Vienna	25.60	•		1.50	(0.20)		31/12/1999	•	
LTB Beteiligungs-Gesellschaft mbH, Vienna (Lotto-Toto)	25.00	•		2.66	2.08		30/11/1999	•	
ÖVKB Holding Gesellschaft m.b.H., Vienna	25.00	•		1.39	0.22		31/08/1999	•	
Donau Allgemeine Versicherungs-Aktiengesellschaft, Vienna	20.00	•		89.56	9.30		31/12/1998	•	

Company, residence	Percentage of interest	Participation direct	indirect	Equity in EUR million	Net income in EUR million	Profit transfer*)	Date of the balance sheet	Fin. statem. acc.to nat. legal requ.	IAS
COMPANIES STATED AT COST									
Erste Private Equity Limited, London	100.00	•		0.25	0.52		31/12/1999	•	
UBG-Unternehmensbeteiligungsges.mbH, Vienna	100.00	•		0.57	0.00		31/12/1999	•	
Wohnungseigentum- und Beteiligungsges.mbH, Vienna	100.00	•		0.13	0.00		31/12/1998	•	
EFH Beteiligungsges.mbH, Vienna	50.00	•		0.01	0.00		31/12/1998	•	
Hemingway Holding AG, Vienna	45.60		•	3.40	(1.30)		31/12/1998	•	
Sparkassen-Betriebsgesellschaft m.b.H., Linz	26.00	•		1.50	0.04		30/09/1998	•	
ZV Zahlungsverkehrsgesellschaft m.b.H., Klagenfurt	25.00	•		0.03	0.00		31/12/1998	•	
WED Holding GmbH, Vienna	19.24	•		11.30	(0.02)		31/12/1998	•	
Messer igm Robotersysteme AG, Wr. Neudorf	19.22		•	17.74	1.37		31/08/1998	•	
Arwag Holding AG, Vienna (group)	19.20	•		63.61	(2.07)		31/12/1998	•	
BVP-Pensionskassen AG, Vienna	19.00	•		5.98	0.23		31/12/1998	•	
BVP-Pensionsvorsorge-Consult-GmbH, Vienna	19.00	•		0.14	0.02		30/06/1999	•	
Wiener Börse AG, Vienna	9.95	•	•	24.01	(4.17)		31/12/1999	•	
RHI AG, Vienna (group)	3.51	•		247.52	53.78		31/12/1998	•	

*) Single entity relationship

VI. Information and explanations pursuant to Section 245a Austrian Commercial Code on accounting, valuation and consolidation methods applied deviating from Austrian Accounting Principles

The objectives of consolidated financial statements prepared according to IAS differ from those of consolidated financial statements drawn up according to the Austrian Accounting Principles. In particular, the financial statements prepared according to IAS provide greater transparency and more relevant information about the company. According to IAS figures determined solely for tax purposes are not permitted. IAS assign priority to the investors' information needs. As IAS have different objectives, this results in some different accounting policies as well as extended reporting requirements in the Notes.

The 1999 Consolidated Financial Statements prepared according to IAS comprise the Income Statement, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and the Notes. The comparative figures for the previous year were also prepared in accordance with IAS principles.

In the following cases, the differences between the objectives of IAS and Austrian Accounting Principles led to substantial differences (selected items only):

Scope of Consolidation Compared to the scope of consolidation applicable in 1998 according to Austrian Accounting Principles, the scope of consolidation pursuant to IAS now also includes subsidiaries (including those stated at equity) that are not engaged in the banking business but had to be consolidated due to the control concept.

Balance sheet and income statement The Austrian Banking Act provides for a specific form of the Balance Sheet and Income Statement for credit institutions. There is no such form according to IAS.

Loans and advances to credit institutions and customers These items are now reported at gross amounts according to IAS, i.e. before deducting provisions. In addition, unlisted securities, which were assigned to the loans and advances items pursuant to the Austrian Banking Act are now grouped with the respective securities portfolio (trading assets, investments available for sale or financial investments) .

Risk provisions for loans and advances Those risk provisions accounted for in the Balance Sheet are reported according to IAS in line with standard international practice as a separate line item under assets following loans and advances. This provides greater insight into the Company's risk provisioning policy. Allocations to and releases of risk provisions for the lending business are reported on a net basis as a separate item in the Income Statement.

Trading assets All trading assets are reported in the Balance Sheet as a separate item according to IAS. This item is mainly comprised of the securities held in the trading portfolio stated at fair value and the positive fair value of derivatives transactions that were not yet settled at the balance sheet date.

Investments available for sale According to IAS, securities that are neither classified as trading assets nor as financial investments (liquidity reserves) are reported under this item. As before, such assets are valued at the lower of cost or market.

Financial investments In accordance with IAS, this item is comprised of long-term investments, securities held as financial investments and other financial investments (particularly leased properties).

Intangible fixed assets Intangible fixed assets generated internally must be capitalised according to IAS if the requirements for capitalising assets are met, whereas the Austrian Commercial Code prohibits capitalisation of such assets. Purchased goodwill must be capitalised according to IAS and amortised on a straight-line basis over its useful life. According to the Commercial Code, such assets may be deducted from equity.

Employee benefits According to IAS, the actuarial calculation of employee benefits (applying the projected unit credit method) takes into account the expected forecast increase of salaries. A long-term capital market interest rate is used as the discount rate. Pension provisions for active employees and Management Board members at Erste Bank AG and Salzburger Sparkasse were transferred to a pension fund effective 1 January 1998. Effective 1 January 1999 pension provisions for active employees and Management Board members at S Bausparkasse were transferred, too. This transfer also marked the transition for employees active at that point from the defined benefit plan to the contribution principle.

Deferred taxes In calculating and reporting deferred taxes pursuant to IAS, the liability based temporary concept is applied, which compares the carrying amounts of the assets and liabilities with the respective tax basis. Differences in these amounts lead to taxable temporary differences, which result in deferred tax assets and deferred tax liabilities to be recognised regardless of when these differences cease to exist. According to IAS, these deferred taxes must be recognised, whereas recognition of deferred tax assets is optional in the stand-alone financial statements prepared according to the Austrian Commercial Code. Tax asset and tax liabilities may only be recognised to the extent they result from temporary differences between the pre-tax income according to Austrian Accounting Principles and the taxable profit determined in accordance with tax laws and regulations provided a tax expense would actually have been incurred before considering tax losses carried forward. The Austrian Commercial Code does not allow the recognition of deferred tax assets resulting from tax losses carried forward.

Fiduciary transactions In line with their economic purpose, fiduciary operations conducted in the bank's name but for the account of third parties are not included in the Balance Sheet pursuant to IAS. According to Section 48 (1) Austrian Banking Act, such fiduciary agreements are to be reported in principle by the fiduciary agent. However, should other regulations exist according to which the assets held in trust may be segregated from bankruptcy proceedings, they should be reported as an off-balance-sheet item.

Net interest income Pursuant to IAS, this item includes interest income, interest expenses, income from investments, other dividends and income from variable-yield securities. Interest income and funding expenses resulting from items attributed to the trading portfolio, on the other hand, are reported in the Income Statement under the net trading result.

According to the form required by the Austrian Banking Act, net interest income and income from variable-yield income securities and investments are reported as two separate main items.

Depreciation Included in this item are depreciation, amortisation and extraordinary write-offs of all tangible and intangible fixed assets. Amortisation of acquired goodwill, which is accounted for in the item depreciation according to the Austrian Commercial Code, is reported under other operating results pursuant to IAS.

Other operating results This item includes the following main components:

- Result from the valuation and/or sale of securities held as investments available for sale and of all assets reported as financial investments (securities held as financial investments, investments);
- Result from valuation, allocation to and release of provisions not attributed to lending business;
- Amortisation of acquired goodwill;
- Other operating income/expenses not attributed to other items in the Income Statement.

Reconciliation of equity according to IAS to equity according to Austrian Commercial Code and Banking Act

	in EUR Mio
Equity as of 31 December 1997 acc. to Austrian Commercial Code / Austrian Banking Act	**1,457**
Less minority interests	(99)
Equity acc. to Austrian Commercial Code / Austrian Banking Act as of 31 December 1997 less minority interests	**1,358**
Adjustments due to application of IAS	
Changes in the scope of consolidation	(36)
Goodwill capitalised	189
Provisions for employee benefits	(285)
Valuation adjustments in real estate, real estate projects and fixed assets, in particular pursuant to IAS 36, and other adjustments	(322)
Deferred taxes – net	337
Equity as of 1 Jan 1998 acc. to IAS	**1,241**

Vienna, 3 April 2000

The Management Board

Andreas Treichl mp
Chairman

Elisabeth Bleyleben-Koren mp
Deputy Chairman

Reinhard Ortner mp
Board Member

Franz Hochstrasser mp
Board Member

Peter Ostermann mp
Board Member

Auditors' Report

We have audited the accompanying Consolidated Financial Statements of Erste Bank der oesterreichischen Sparkassen AG (Erste Bank Group) as of 31 December 1999 and 31 December 1998 comprised of the Balance Sheet as of 31 December 1999 and 31 December 1998 the Income Statements, Statements of Changes in Equity, Cash Flows Statements and Notes for the years then ended.

These Financial Statements are the responsibility of the Management Board. Our responsibility is to express an opinion on these Financial Statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing (ISA) of the International Federation of Accountants (IFAC). Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Financial Statements give a true and fair view in all material respects of the financial position of Erste Bank group as of 31 December 1999 and 31 December 1998, and of the results of its operations and its cash flows for the years then ended in accordance with the International Accounting Standards (IAS).

Under Austrian Law (Section 59 a Austrian Banking Act), an audit of the group Management Report has to be conducted and it has to be certified whether the legal requirements for the exemption from the preparation of consolidated accounts according to Austrian law are met.

We confirm that the Management Report for Erste Bank Group is consistent with the Consolidated Financial Statements and we further certify that the legal requirements for the exemption from the preparation of consolidated accounts according to Austrian Law are met.

Vienna, 4 April 2000

Sparkassen-Prüfungsverband
Auditing Agency

Wolfgang Riedl mp	Klaus Goschler mp
Public Accountant	Audit Director

EIDOS Wirtschaftsberatung GmbH
Public Accountants and Tax Advisors

Erich Kandler mp	Wolfgang Houska mp
Public Accountant	Public Accountant

Report of Supervisory Board

During 1999, the Supervisory Board was regularly informed by the Management 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 consolidated accounts, including 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 Management Board as well as its proposal concerning the distribution of profits. The Supervisory Board has accordingly sanctioned the 1999 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 2000

Herbert Schimetschek
Chairman of the Supervisory Board

Sponsoring

The artwork in this report takes its theme from architectural details of Wiener Secession, an important partner in Erste Bank's sponsorship activities.

Erste Bank views culture as integral to a country's identity and strives to support art, music and theatre. Our sponsoring, like our ties to customers and shareholders, seeks continuity. At the heart of our efforts are enduring partnerships with well-known institutions – such as the "Wiener Musikverein", a prominent feature of Vienna's musical landscape – that embody the philosophy of Erste Bank.

Next to promoting culture, Erste Bank also aims to help people in a wider human context and takes its support for charities, like Caritas and others beyond Austria's borders and into Central Europe.

To receive the annual financial statements of Erste Bank AG (based on Austrian accounting standards and available in German only) contact Investor Relations, Am Graben 21, A-1010 Vienna or investor.relations@erstebank.co.at

Imprint

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