

Interim Report

1999

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

- **Improvement in operating profit of 4.1%** to ATS 2,342 million
- **Operating income increased by 3.2%** to ATS 8,576 million
- **Operating expenses** increased at a reduced rate **of 2.9%** to ATS 6,234 million
- **Net commission and fee income climbed 11.4%** to ATS 2,240 million
- **Cost/income ratio** for first six months **unchanged at 72.7%**



- **Profit on ordinary activities**, at ATS 1,362 million, **is up 4.4%** year on year



The main thrusts of activity in the first half of 1999 were the continued swift implementation of the savings bank strategy and the launch of the execution stage of Erste Bank's cost reduction project.

Implementation of the savings bank strategy of Erste Bank

Joint marketing offensive

A large-scale marketing campaign by Erste Bank and the savings bank sector is to begin in 2000. Preparations passed several key milestones in the second quarter of 1999. The new common logo format for the entire savings bank sector contains the traditional red letter "S" as well as the term "SPARKASSE" or "ERSTE" in blue. Two working groups of Erste Bank and the savings banks, in co-operation with the financial services companies of the Erste Bank Group, have agreed their first comprehensive joint marketing plan for the year 2000, both for retail and commercial business. To achieve the plan's central objective of generating high levels of awareness of the unified image, the common budget dedicated to the purpose was greatly increased.

The potential inherent in a uniform image for the entire savings bank sector is apparent from the large contribution the savings banks already make to the sales of Erste Bank Group companies: In insurance, savings banks account for about two-thirds of annual sales; at the investment fund company Erste Sparinvest, for more than one-third; at the mortgage savings bank S-Bausparkasse, for some 43%, and at the leasing company Immorent for 30%. The single

identity is expected to generate additional synergies.

Measurable targets have been set for increases in market share and service quality. The plans include the following objectives:

- a 2% rise in the savings bank sector's market share over three years (2000-2002),
- major customers to account for an increased proportion of corporate business, with the share rising from 14% to 16% over three years (2000-2002)
- to achieve market-leadership in terms of customer satisfaction

In order to offer its clientele the highest degree of convenience, the savings bank sector is making banking services more available, independently of branch opening hours and locations. This involves the development of a sector-wide service centre and enhanced flexibility of advisors in terms of when and where they work. Furthermore, self-service facilities are being expanded and a universal platform is being created for Internet banking ("Netbanking").

The "S" brand is to become synonymous with outstanding quality of advice throughout Austria. To this end, a system has been developed for transferring know-how through the entire savings bank sector, with a focus on quality management and training.

While image advertising will be carried out in a single national campaign, regional-level communication will address specific needs and preferences, while local advertising will promote individual products. This approach will make the best possible use of the savings banks' strong regional roots. The campaign will be launched in January 2000.

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Progress with the cost reduction programme

A crucial phase of Erste Bank's cost-cutting programme was reached in June, with the completion of decision-making on the appropriate course of action including specific implementation planning:

- Erste Bank set itself the goal of **cutting costs by ATS 1,044 million by the end of 2000** in the units taking part in the project (mainly back office and central services)
- **All ten clusters** into which the relevant units were grouped **reached or exceeded their target** of mapping out how they will cut cost by 30%
- The cost savings involve only **activities not directly related to customer care**
- About 40% of the economies are being realised in materials costs, led by expenses for office space, purchasing and information technology. Savings on IT hinge on measures to improve and simplify existing processes, but will not affect investment in Y2K conversion, new technologies and alternative distribution channels
- More than one-half of targeted cost reductions are expected to begin to bear fruit in 1999, but the **majority of bottom line impact is expected in 2000**




Details of the distribution of cost reductions

The implementation and controlling of the various cost cutting activities will be on a quarterly basis, the full bottom line impact will accordingly be measurable in the following quarters.

Area involved	Cost reduction target in ATS million	Showing results beginning in 1999	Showing results beginning in 2000
IT	145	28%	72%
Office space and purchasing	94		
of which offices		26%	74%
of which purchasing		70%	30%
Other misc. material expenses of units concerned	170		
Personnel	635	58%	42%
Total	1,044	51%	49%

The implementation of the plans has been completed, the entire cost reduction project will be finalised in December 2000. A specifically established efficiency controlling will start in the third quarter of 1999 and supervise the process and the reaching of volume and time targets.

Other developments within Erste Bank Group

- The annual general meeting of Erste Bank shareholders on June 1, 1999 approved the spin-off of parts of the retail branch network. In the autumn of 1999, **42 branches in Upper Austria will be transferred to Allgemeine Sparkasse Oberösterreich** with retroactive effect of January 1, 1999. As part of the transaction, Erste Bank's stake in the regional savings bank will increase to 26.9%. In Carinthia, the acquisition of 10% of Kärntner Sparkasse involves the **handover of Erste Bank's two regional branches**. In Salzburg, in return for its 13 local outlets, Erste Bank is **enlarging its interest in Salzburger Sparkasse to 74.5%** through a capital increase.
- The Erste Bank Group (including branches abroad and subsidiaries) is **year-2000-compliant as of June 30, 1999**. This means the compliance of all software and IT hardware. The **total cost amounts to ATS 220 million**, most of it in the form of accelerated investment in IT infrastructure. About 45% of the expense arises from software development and testing. As of the end of June, 90% of customers were also classified as Y2K-compliant. An analysis of Erste Bank's corporate clients in Eastern Europe yielded similar results.
- In fiscal year 1998 the insurance subsidiary -Versicherung was able to lift its premium income by 32%, thus strengthening its market share from 7% to more than 8%. The company's **market share in new business amounts to 11%**, of which over 95% comes from distribution through savings banks. With a stake of 38.9%, Erste Bank is -Versicherung's largest shareholder. It was also announced that in the first quarter of 2000, -Versicherung will begin operations in Hungary, using the retail network of Erste Bank Hungary for distribution.
- Under a medium-term note programme started in January 1999, Erste Bank **expanded its investor base in July** by issuing a seven-year, EUR 500 million floating rate note. In the German-speaking countries, Erste Bank traditionally encounters excellent refinancing conditions. With this issue, it also successfully secured investors in the rest of the Euro zone, above all in Belgium, Italy and the UK. By the time the offer formally launched, it was already fully subscribed.

Erste Bank Group Balance Sheet as of 30th June 1999

		ATS million		EURO million		
		31. 12. 1998	30.06.1999	31. 12. 1998	30.06.1999	+/- %
Assets						
1)	Cash in hand, balances with central banks and post office banks	9,263	13,193	673	959	42.4
2)	Treasury bills and other bills eligible for refinancing with central banks	45,267	47,054	3,290	3,420	3.9
3)	Loans and advances to credit institutions	190,601	197,518	13,852	14,354	3.6
4)	Loans and advances to customers	374,029	390,087	27,182	28,349	4.3
5)	Debt securities and other fixed income securities	44,696	47,454	3,248	3,449	6.2
6)	Shares and other variable-yield securities	13,414	20,694	975	1,504	-54.3
7)	Participating interests	5,523	5,508	401	400	-0.3
8)	Shares in affiliated undertakings	1,622	1,615	118	117	-0.4
9)	Other assets	31,001	30,151	2,253	2,191	-2.7
Total assets		715,416	753,274	51,991	54,743	5.3
Liabilities and Shareholder's Equity						
1)	Amounts owed to credit institutions	301,793	322,722	21,932	23,453	6.9
2)	Amounts owed to customers					
	a) Savings deposits	187,372	189,604	13,617	13,779	1.2
	b) Other deposits	82,006	86,818	5,960	6,309	5.9
3)	Debts evidenced by certificates	69,594	75,381	5,058	5,478	8.3
4)	Provisions	11,079	10,746	805	781	-3.0
5)	Subordinated liabilities	15,416	16,035	1,120	1,165	4.0
6)	Supplementary capital	8,882	10,393	645	755	17.0
7)	Subscribed capital	4,441	4,441	323	323	0.0
8)	Reserves	15,667	15,708	1,139	1,142	0.3
9)	Other liabilities	19,166	21,426	1,393	1,557	11.8
Total Liabilities and Shareholder's Equity		715,416	753,274	51,991	54,743	5.3
Total Equity (incl. minority interests and net income)		22,372	23,965	1,626	1,742	7.1
thereof Shareholder's Equity (excl. minority interests)		20,108	20,149	1,461	1,464	0.2
Off balance sheet items						
Contingent liabilities		32,843	40,631	2,387	2,953	23.7
of which						
	a) Acceptances and endorsements arising from rediscounted bills of exchange	2	0	0	0	-100.0
	b) Guarantees and assets pledged as collateral security	31,293	39,630	2,274	2,880	26.6

Summarised Profit and Loss Account as of 30th June 1999

		ATS million		EUR million		+/- %
		Jan. - June 98	Jan. - June 99	Jan. - June 99	Jan - June 99	
1)	Interest income and similar income	20,553	19,751	1,494	1,435	-3.9
2)	Interest expense and similar expenses	-15,939	-15,205	-1,158	-1,105	-4.6
I.	NET INTEREST INCOME	4,614	4,546	335	330	-1.5
3)	Income from shares, other equity instruments and variable-yield securities	223	310	16	23	39.0
4)	Income from participating interests and shares in affiliated undertakings	181	237	13	17	30.9
5)	Net commission and fee income	2,010	2,240	146	163	11.4
6)	Net profit from trading activities	776	814	56	59	4.9
7)	Other operating income	505	429	37	31	-15.0
II.	OPERATING INCOME	8,309	8,576	604	623	3.2
8)	Personnel expenses	-3,412	-3,520	-248	-256	3.2
9)	Other administrative expenses	-1,635	-1,687	-119	-123	3.2
10)	Depreciation and amortisation of fixed assets	-536	-654	-39	-48	22.0
11)	Other operating expenses	-476	-373	-35	-27	-21.6
III.	OPERATING EXPENSES	-6,059	-6,234	-440	-453	2.9
IV.	OPERATING RESULT	2,250	2,342	164	170	4.1
12)	Revaluation in respect of loans and advances as well as of contingent liabilities	-1,096	-1,080	-80	-78	-1.5
13)	Revaluation/selling in respect of financial investments	150	100	11	7	-33.3
V.	RESULT OF ORDINARY ACTIVITIES	1,304	1,362	95	99	4.4

Trends in Erste Bank Group's balance sheet and profit and loss account in the first half of 1999

Net interest income including income from securities and participating interests

In the first six months of 1999, net interest income together with revenues from securities and participating interests reached ATS 5,093 million, an increase of about 1.5% on the same period one year earlier. In spite of persistently difficult market conditions, the Erste Bank Group followed the 1.9%

year-on-year rise of the first quarter of 1999 with a 1.0% corresponding improvement in the second quarter to ATS 2,508 million, as against ATS 2,482 million at the end of June 1998. The key positive driver were distributions received from mutual funds.

Net interest income proper declined in the first six months by some 1.5% on the first half of 1998, to ATS 4,546 million. However, the decline during the first quarter was halted with stabilisation in the second quarter. Income from variable-yield securities and participating interests grew more strongly than in the same period last year, increasing by about 35.4% to ATS 547 million.

Net commission and fee income

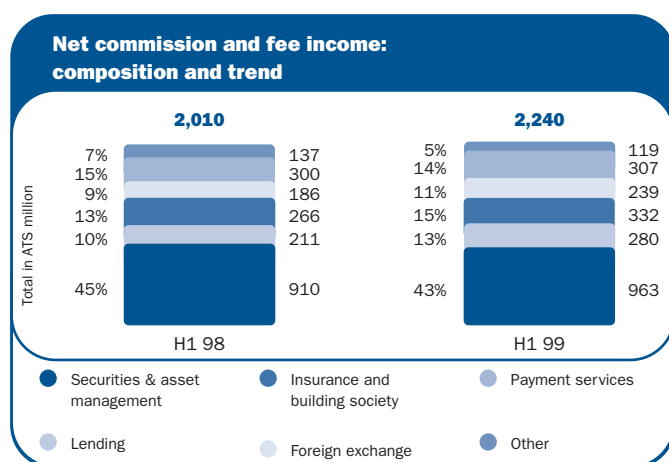
Following a first-quarter jump of 17.0%, **net income from commissions and fees increased moderately (+6.2%)** in the second quarter. On the base of the very high year-earlier result of ATS 2,010 million - which reflected the extraordinarily strong sales of the „ECM“ line of asset management products - cumulative net commission and fee income in the first six months advanced to ATS 2,240 million, an improvement of 11.4%. **Over the past two years Erste Bank thus succeeded in boosting net commission and fee income by 34.1% from ATS 1,670 million.**

Long strides were also taken in **lending business, where commission and fee income was lifted by about 33% (ATS 69 million)** on 12 months earlier, to ATS 963 million in first half of 1998. This positive trend was driven mainly by higher commission income from international lending projects.

Growth in commission and fee income from securities business and asset management slowed, largely as a result of the weaker stock market turnover. The decline in turnover on the Vienna Stock Exchange ran to about 30% in the first six months, preventing last year's above-average rates of growth from being matched.

This division was nonetheless able to push up its net income from commissions and fees, thanks in large part to **Erste Sparinvest KAG, whose assets under management grew 22.9%, to ATS 188.6 billion** since end-June 1998. Overall, net commission and fee income from securities and asset management increased 5.8%.

Net commission and fee income from insurance business was as well **lifted substantially** compared to the first half year of 1998, confirming the success of the Group's retail strategy.



Net profit from trading activities

The first quarter of 1999 saw a decline in **net profit from trading activities** of 19.5% to ATS 380 million, a consequence of the introduction of the Euro and the slower activity on the Vienna Stock Exchange. This drop was more than made up in the second quarter, producing a **net increase on the first half of 1998 of 4.9%**, from ATS 776 million to ATS 814 million.

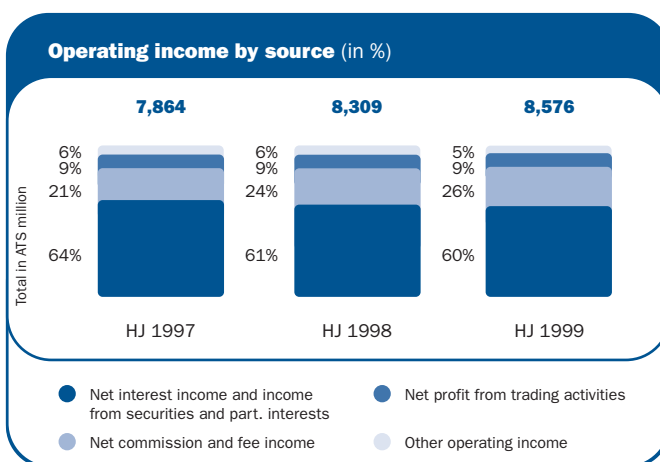
Other operating income

The main other sources of operating income are construction services, payment settlements, external income from suppliers, payments linked to the completion of leasing and mortgage contracts, asset sales, rent, and re-invoiced real estate leasing charges. The reduction in other operating income parallels a decrease in other operating expenses. It results primarily from increased netting between these two items.

Operating income

Total operating income in the second quarter of 1999 rose by ATS 122 million, or 2.9%, year on year. Added to the increase charted in the first quarter of 1999, this translates to **growth of 3.2% (ATS 267 million)** in operating profit during the first half of 1999.

The contribution from net commission and fee income to operating income has progressively increased from 21.2% at mid-1997 to the current level of 26.0%. This rise entirely offset the declining share of net interest income and income from securities and participating interests. The contribution from trading profits remained steady at 9%.



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Personnel expenses

Payroll cost in the first half of 1999 amounted to ATS 3,520 million, an increase of about 3.2% on the same period last year. This rise was caused mainly by the first-time consolidation of selected subsidiaries in the Erste Bank Group. While newly consolidated small companies accounted for about one-third of the increase, the consolidation of the subsidiaries SPARDAT and Sparkassenverlag/GESCO (a marketing and publishing unit) caused a shift from other administrative to personnel expenses. On balance, the workforce was trimmed by 374 employees, or 3.8%, in the first half of the year: from 9,783 employees as of 31 December 1998 (a figure which reflects the consolidation-related addition of 701 employees) to 9,409.

Other administrative expenses

Non-personnel administrative expenses grew by about 3.2% during the first six months of 1999. The chief causes were higher legal, consulting and IT expenses.

Depreciation and other operating expenses

Owing to higher capital expenditure, especially for information technology, some of which occurred in 1998, the requirement for depreciation of tangible fixed assets was far higher than during the same period last year.

Operating expenses

Year-to-date operating expenses in the first half of 1999 rose 2.9% compared with the same period last year (from ATS 6,059 million to ATS 6,234 million). However, a comparison of the first and the second quarters shows a small 1.1% reduction from ATS 3,134 million to ATS 3,100 million, an initial effect of the cost reduction programme launched in the first quarter.

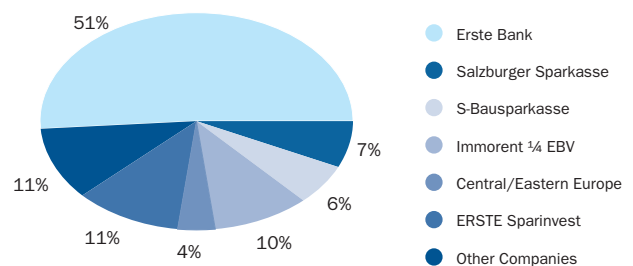
Operating profit

During the first six months of this year, the operating profit strengthened from the year-earlier level of ATS 2,250 million to ATS 2,342 million, a gain of 4.1%. The increase amounted to 3.9% in the first quarter, then picked up to 4.3% year-on-year from April to June.

Profit on ordinary activities

After risk provisions and write-offs, profit on ordinary activities grew by 4.4% relative to the first half of 1998, reaching ATS 1,362 million.

Share of key operating companies in operating profit in H1 1999



Development of the Erste Bank Group's balance sheet

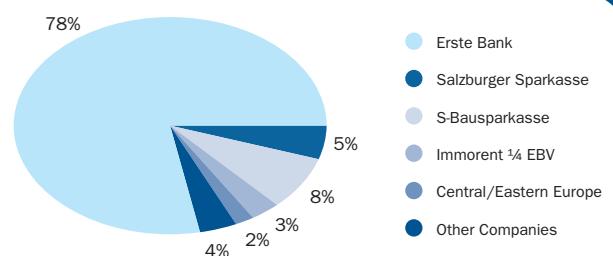
As of June 30, 1999 the Erste Bank Group had total assets of ATS 753.3 billion, representing an increase of approximately ATS 37.9 billion, or 5.3%, since the end of 1998.

Assets

The cash position increased by about 42.4% compared to the end of 1998, for reasons related to the cut-off date of the reporting period.

Following the strong first-quarter growth of about ATS 27 billion in the portfolio of loans and advances to banks, this position was substantially reduced in the second quarter. The increase since the end of 1998 now amounts to roughly

Share of key operating companies in total assets



3.6%, close to the target figure. The difference was made up largely with higher-margin loans and advances to customers and with additional securities holdings.

Loans and advances to customers, at ATS 390 billion, have grown by 4.3% relative to the 1998 year-end level. About ATS 8.2 billion (2.1%) was added in the second quarter, approximately as much as over the first three months of the year (ATS 7.9 billion). In large measure this trend represents the increase at Erste Bank AG, notably the expanded loan book of the New York branch.

In the first half of 1999 the **total securities holdings** swelled by about ATS 11.8 billion (11.4%). The second quarter in particular saw a pronounced increase relative to the first three months (by some ATS 7.8 billion, or 7.2%), mainly as a result of higher investments in mutual funds and other variable-yield securities.

Largest asset items on balance sheet

	6/98	12/98	6/99
Loans and advances to banks	180,383	190,601	197,518
Loans and advances to customers	366,857	374,029	390,087
Securities	106,902	103,377	115,202
Other assets	59,791	47,409	50,467
Total assets	713,933	715,416	753,274

Liabilities

On the liabilities side, **amounts owed to banks** grew 6.9% to ATS 322.7 billion relative to the end of 1998.

Reflec suppleting this development, **primary funds** (amounts owed to customers, debts evidenced by certificates, subordinated capital andmentary capital) **increased** from ATS 363.2 billion to ATS 378.2 billion, a change of 4.1%.

Largest liabilities items on balance sheet

	6/98	12/98	6/99
Amounts owed to banks	290,649	301,793	322,722
Primary funds	362,620	363,270	378,231
Equity (incl. minority interests)	20,981	22,372	23,965
Other liabilities	39,683	27,981	28,356
Total liabilities	713,933	715,416	753,274

Capital resources

The **core capital ratio** as of June 30, 1999 amounted to 6.1%, while the solvency ratio stood at 10.9%. Both values are virtually unchanged relative to the end of 1998, despite the issuance of sub-tier-1 capital. The flat figures are explained by a significant (+7%) increase in **risk-weighted assets** from ATS 364.1 billion as of December 31, 1998 to ATS 389.5 billion.

The **capital resources** required under Section 22 of the Austrian Banking Act amount to ATS 33.6 billion. **Own funds** (incl. tier 3 capital) on the balance sheet date amount to ATS 46.6 billion, producing a cover ratio of 138.7%.

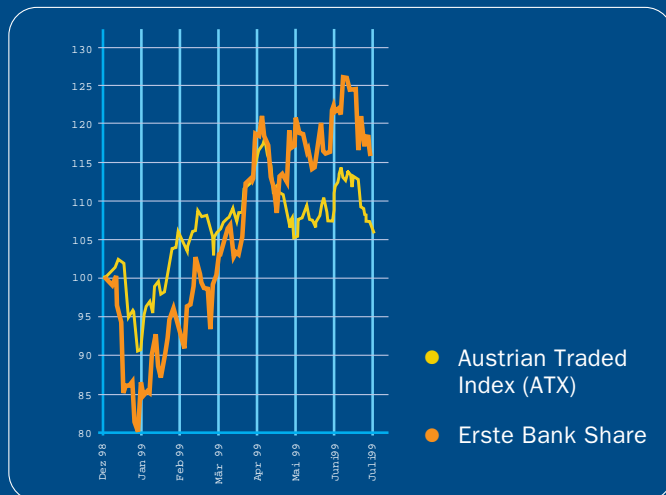
In ATS billion	June 98	Dec 98	June 99
Risk-weighted assets	365.9	364.5	389.5
Core capital	22.2	22.2	23.7
Core capital ratio in %	6.1	6.1	6.1
Qualifying capital	39.2	40.2	42.5
Solvency ratio in %	10.7	11.0	10.9
Total capital resources	45.2	43.7	46.6
Total capital requirement	31.9	32.1	33.6
Surplus capital	13.2	11.6	13.0
Cover ratio in %	141.4	136.0	138.7

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27th October 1999	Publication of results for 3rd quarter 1999
27th October - 7th November 1999*	„Autumn-Roadshow“ of Erste Bank
16th December 1999*	Announcement of Forecasted Figures for 1999
23rd March 2000*	Announcement of Preliminary Figures for 1999

* current planing

Erste Bank share price performance relative to ATX (rebased) to 30th July, 1999:



The Kosovo conflict and interest rate fears in the USA exerted a significant influence on stock market trends in the second quarter. Over this period the Erste Bank share consistently outperformed the Austrian ATX Index: In early July 1999, following a consolidation to just below EUR 50 at the end of May, the share price reached a new high for the year to date of EUR 57.25. In July the Austrian market, amid seasonally low turnover, repeatedly felt the effect of persistent speculation about interest rate increases by the US Federal Reserve. On July 30, 1999 Erste Bank's share quoted at EUR 53.10, a level 16.5% higher than at the beginning of the year. The share advanced far more strongly than the Austrian stock index, which gained 5.4% over the same period.

- At the end of June 1999 the Austrian business daily "Wirtschaftsblatt" awarded an investor prize. To this end the 40 largest companies on the Vienna Stock Exchange were rated by a jury of about 400 investors for their investor communications, image, upside price potential and achievement of profit targets. Erste Bank was ranked second overall and took top honours in the individual score for delivery on earnings targets.
- As decided by the annual general meeting in June 1999, the shares of Erste Bank will be converted on August 18, 1999 from a par value of ATS 100 each to no-par-value shares on a one-for-one basis. At the same time the company's share capital and participation capital will be translated to Euros.

Erste Bank share price indicators

Price at 30th July 1999	EUR 53.10
High 1999 (9.7.)	EUR 57.25
Low 1999 (25.1.)	EUR 36.77
P/E Ratio per 30th July 1999 ¹	12.38
Stock exchange turnover (2nd quarter 1999)	EUR 449.77 million
Market capitalisation at 4th December 1997 (IPO price)	EUR 1.98 billion
at 30th July 1999	EUR 2.36 billion

(1) Basis: Earnings per share EUR 4.29 (revised average 1999 estimate by leading analysts)

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