

strategic objectives

1/99

Quarterly Report

- **Operating result** up **3.9%** to ATS 1,183 million (EUR 86 million) compared to last year's strong first quarter
 - Increase in **operating income** by **3.5%** to ATS 4,317 million (EUR 314 million)
 - **High growth** in **net commission and fee income:** up **17%** to ATS 1,134 million (EUR 82 million)
 - **Operating expenses** increased **3.3%**
- Moderate **decline** in **cost/income ratio** to 72.6% in first quarter



Continuing to focus on our 3 core strategies

Erste Bank has made significant progress in the implementation of its **savings bank strategy** during the first few months of 1999. This subject is therefore the main focus of the present quarterly report. Another contribution deals with the **cost reduction project**, which has the objective of achieving a lasting reduction of the cost/income ratio by the end of the year 2000.

Developments in the co-operation with the savings bank sector

Erste Bank's savings bank strategy is based on its **role as the central institution of the Austrian savings bank sector**. By **co-operating with legally independent savings banks**, this strategy offers a means of generating synergies with respect to both costs and earnings on the basis of a profit-oriented division of labour. The potential for rationalisation will be fully utilised by **combining resources** within the scope of Erste Bank, and the **advantages of the decentralised structure** of the savings bank sector at the distribution level.

This new form of co-operation with the savings banks started to develop dynamically in 1998 and in the first quarter of 1999. Thus far **15 of the 29 planned co-operative projects** defined within the four areas of collaboration (an integrated product origination and delivery system, a uniform image, standardisation of business procedures and development of joint management systems) have already been **completely or partially implemented with success**. Some examples are listed below.

- Selection of a **common IT-platform** for the entire savings bank sector.
- Implementation of a **joint marketing focus and a uniform advertising strategy**, harmonisation of market image and standardisation of the logos of the savings banks and the Erste Bank Group.
- Transfer of **securities settlement** to Erste Bank by four savings banks; further projects are under development.
- Collaboration on **balance sheet structure analysis**: agreement has been reached to shift responsibility for asset/liability management to Erste Bank. Seven savings banks are already working together with Erste Bank in this area, a further 28 savings banks have commissioned an initial analysis.
- Centralisation of **purchasing functions** in a joint company.
- Development of a **uniform rating system** for corporate customers within the savings bank sector and implementation of a common earnings enhancement programme in this customer segment.
- Implementation of a **joint approach to retail banking business**.
- Preparation of a **joint policy on distribution channels** including definition of a uniform Internet site for the savings bank sector, configuration of a common call centre, and establishment of "S-Web", a sector-wide communication network.





Streamlining of the distribution network

The streamlining of distribution outlets was agreed upon in the Austrian provinces of Upper Austria, Carinthia and Salzburg. Subject to approval by the Annual General Meeting, Erste Bank has decided to transfer its outlets in these regions to the savings banks in the respective provincial capitals in return for holdings in those banks. These branch transfers are based on comprehensive agreements on close collaboration extending beyond the scope of the main four areas of co-operation.

- Erste Bank is to receive **minority holdings**, and in some instances also a blocking minority
- Erste Bank is to be **represented in the top management** – in the supervisory board, credit committee, and one of the members of the managing board of Allgemeine Sparkasse Oberösterreich will be nominated by Erste Bank
- Erste Bank receives **pre-emption rights** for the shares it does not own
- The **dividend policy** will be geared to achieving a competitive position in the capital market – this has necessitated a reorientation of the savings banks
- A **joint IT-platform** to ensure smooth co-operation

Giving up parts of a distribution network is an entirely new method of **streamlining the market and enhancing efficiency**, and has previously been practised in this form in Europe only by Swedbank, one of Erste Bank's strategic partners. The emphasis is not on the acquisition and integration of savings banks, but on **ending competition within the savings bank sector**, freeing up resources for the consistent management of regional markets, and creating new potential for cost reduction in the institutions involved. For Erste Bank, the advantages ensuing from close co-operation agreements are that this **strengthens important distribution partners** and enables **additional growth potential** to be tapped. In taking this **innovative step**, Erste Bank has made another, substantial contribution towards **reducing and consolidating the branch network in Austria**.

**Cost reduction project aims to save
ATS 1 billion (EUR 73 million)**

At the beginning of 1999, Erste Bank set up an extensive cost reduction project aimed at achieving a rapid and lasting reduction of the cost/income ratio. This should make it possible to **reach the objective of a cost/income ratio of 65–67%** by the year 2000. The purpose is to reduce the **controllable costs** of all central units not directly involved in sales **by 30% by the end of 2000**. Achieving a reduction of this order of magnitude can only be reached in connection with earnings enhancement measures in other key projects. This cost reduction project is not a reengineering scheme, it is designed to achieve the objective of **reducing costs by ATS 1 billion (EUR 73 million)** by the year 2000 by means of

- a reduction of bureaucracy,
- a simplification of procedures, and
- the elimination of inconsistencies.

Details of the project

The cost reduction project embraces all units within the group involved in **back office, administration and support**. These units represent a cost base of ATS 3.4 billion (EUR 247 million) - based on operating expenses totaling ATS 12.3 billion (EUR 897 million) at year-end 1998 - and have been classified into 10 “clusters” according to related areas of activity. Each cluster must achieve the **cost reduction objective of 30%**, although the individual goals for each of the units contained in the cluster may vary.

One of the important aspects of the project relating to the reduction of operating expenses involves the **saving of office space costs**. Reducing the space occupied by the Erste Bank Group by around 30% by the middle of the year 2000 would make it possible to achieve lasting **savings of ATS 100 million (EUR 7.3 million) a year from 2000 on**.

Other developments within the Erste Bank Group

- In line with the reduction of its participations in **industries not related to its core business**, Erste Bank has sold off shares in **Eybl International AG**, reducing its interest from its previous level of 25% to just 2%.
- At the beginning of 1999, Erste Bank strengthened its equity capital base by issuing an **innovative form of core capital** in the amount of **EUR 100 million**. The issue was conducted in accordance with guidelines introduced by the Bank for International Settlements in October 1998 regarding non-voting, non-cumulative “preference shares”. This issue is perpetual non-call for live, paying a quarterly coupon of 6.625% and qualifying as Tier 1 capital for Erste Bank.
- In February, as part of wider restructuring of its services group, Erste Bank merged its two **real estate companies S Real Service and Erste Real**. The new company operates under the name of “S Real”, and is the market leader in Austria.
- In April this year, **Erste Bank Sparkassen (CR) a.s.**, the Czech subsidiary jointly owned by Erste Bank (66.7%), Allgemeine Sparkasse Oberösterreich (28.3%) and Sparkasse Waldviertel-Mitte (5%) opened **another branch in Brno**. This now gives the bank seven branches in the Czech Republic. In expanding its network, the bank is pursuing a strategy of offering a local service to retail and corporate customers in economically important regions.

Erste Bank Group

	31. 12. 1998	30.03.1999	31. 12. 1998	30.03.1999	+/- %
	ATS million	ATS million	EUR million	EUR million	
Assets					
1. Cash in hand, balances with central banks and post office banks	9,263	5,461	673	397	-41.0
2. Treasury bills and other bills eligible for refinancing with central banks	45,267	42,982	3,290	3,124	-5.0
3. Loans and advances to credit institutions	190,601	217,755	13,852	15,825	14.2
4. Loans and advances to customers	374,029	381,897	27,182	27,754	2.1
5. Debt securities and other fixed income securities	44,696	49,520	3,248	3,599	10.8
6. Shares and other variable-yield securities	13,414	14,946	975	1,086	11.4
7. Participating interests	5,523	5,508	401	400	-0.3
8. Shares in affiliated undertakings	1,622	1,670	118	121	3.0
9. Other assets	31,001	34,092	2,252	2,477	10.0
Total assets	715,416	753,831	51,991	54,783	5.4
Liabilities and Shareholders' Equity					
1. Amounts owed to credit institutions	301,793	335,413	21,932	24,375	11.1
2. Amounts owed to customers					
a) Savings deposits	187,372	187,487	13,617	13,625	0.1
b) Other deposits	82,006	79,765	5,960	5,797	-2.7
3. Debts evidenced by certificates	69,594	72,229	5,058	5,249	3.8
4. Provisions	11,079	10,989	805	799	-0.8
5. Subordinated liabilities	15,416	15,868	1,120	1,153	2.9
6. Supplementary capital	8,882	10,366	645	753	16.7
7. Subscribed Capital	4,441	4,441	323	323	0.0
8. Reserves	15,667	16,142	1,139	1,173	3.0
9. Other liabilities	19,166	21,131	1,392	1,536	10.3
Total Liabilities and Shareholders' Equity	715,416	753,831	51,991	54,783	5.4
Total Equity (incl. minority interests and net income)	22,372	24,374	1,626	1,771	8.9
thereof Shareholders' Equity (excl. minority interests)	20,108	20,583	1,461	1,496	2.4
Off balance sheet items					
Contingent liabilities	32,843	34,720	2,387	2,523	5.7
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	33,527	2,274	2,437	7.1

Summarised Profit and Loss Account for Jan - Mar 1998 and 1999

	Jan - March 98	Jan - March 99	Jan - March 98	Jan - March 99	+/- %
	ATS million	ATS million	EUR million	EUR million	
1. Interest income and similar income	10,538	10,515	766	764	-0.2
2. Interest expense and similar expenses	-8,151	-8,198	-592	-596	0.6
I. Net interest income	2,387	2,317	174	168	-2.9
3. Income from shares, other equity instruments and variable-yield securities	78	173	6	13	121.8
4. Income from participating interests and shares in affiliated undertakings	71	95	5	7	33.8
5. Net commission and fee income	969	1,134	70	82	17.0
6. Net profit from trading activities	472	380	34	28	-19.5
7. Other operating income	195	218		14	11.8
II. Operating income	4,172	4,317	303	314	3.5
8. Personnel expenses	-1,727	-1,801	-126	-131	4.3
9. Other administrative expenses	-847	-841	-62	-61	-0.7
10. Depreciation and amortisation of fixed assets	-252	-293	-18	-21	16.3
11. Other operating expenses	-207	-199	-14	-15	-3.9
III. Operating expenses	-3,033	-3,134	-220	-228	3.3
IV. Operating result	1,139	1,183	83	86	3.9

Development of Erste Bank Group's Balance Sheet and Profit & Loss Account in the First Quarter of 1999

With an operating result of ATS 1,183 million (EUR 86 million), the Erste Bank Group's profits were up 3.9% compared to the previous year (1st quarter 1998: ATS 1,139 million (EUR 83 million)). This increase was mainly attributable to the following factors:

Net interest (net interest income plus income from securities and participating interests) in the amount of ATS 2,585 million (EUR 188 million) represented a slight improvement compared to the first quarter of 1998 (ATS 2,536 million or EUR 184 million). This improvement was mainly due to higher returns from investment funds (including S-Bausparkasse), as a consequence of a significant increase in investments.

On the other hand, **net interest income** proper decreased by 2.9% compared to 1998.

Net commission and fee income continued to develop positively, increasing by 17%. Particular improvements were achieved in commission and fee income from **securities, asset management, insurance and savings and loan association business**.

However, **net profit from trading activities** fell by 19.5% compared to the first quarter of 1998. The main reasons for this development were the effects of introducing the Euro and a decline in turnover on the Vienna Stock Exchange in the first quarter of 1999.

On balance, **operating income** improved by 3.5% to ATS 4,317 million (EUR 314 million). Due to the following developments, **operating expenses** increased by 3.3%:

There was a shift of about ATS 50 million (EUR 3.6 million) from other administrative expenses to personnel expenses due to the **initial consolidation of Spardat GmbH and the Sparkassenverlag/Gesco Group**. Furthermore, the financial statements now also include certain companies there were not fully consolidated in the first quarter of 1998.

The overall **operating result** therefore increased by 3.9% compared to the first quarter of 1998, when this figure was exceptionally high.

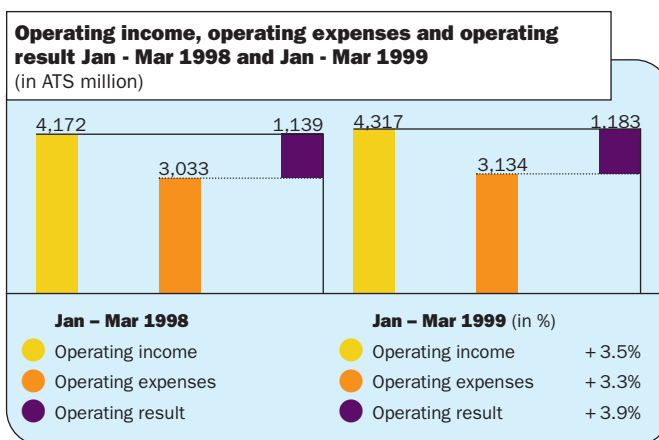
Compared to 31st December 1998, **total assets** increased by 5.4% to ATS 753.8 billion (EUR 54.8 billion). Assets rose mainly due to growth in interbank deposits and a marked rise in the volume of own account securities holdings. Loans and advances to customers displayed only moderate growth of 2.1% to ATS 381.9 billion (EUR 27.8 billion).

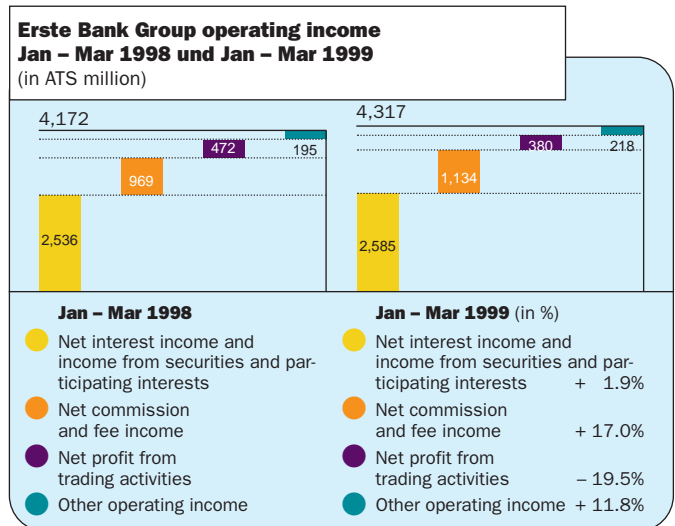
On the **liabilities side**, there was also a marked rise in interbank deposits, whereas there was negligible growth in amounts owed to customers.

The **core capital ratio** as of 31st March 1999 was 6.1%, unchanged compared to the year-end 1998, whilst the equity ratio decreased only slightly from 11.0% as of 31st December 1998 to its present level of 10.9%.

The main reason for this was a sharp increase of 6.2% in **risk-weighted assets** to ATS 387.1 billion (EUR 28.1 billion), offset by the positive impact of the issue in February 1999 of EUR 100 million (ATS 1.38 billion) of sub-tier 1 capital (which qualifies as core capital).

The Erste Bank Group currently has own funds (including tier 3 capital) amounting to ATS 46.4 billion (EUR 3.4 billion), compared to ATS 33.8 billion (EUR 2.5 billion) stipulated by § 22 of the Austrian Banking Act. This means that the Group now has a coverage ratio of 137.2% (31st December 1998: 136.0%).





Investor Relations

- Several very positive analyst reports of Erste Bank were published during the first few months of this year. The two Dutch banks **Rabobank** and **ABN AMRO** both initiated coverage of Erste Bank. In January Rabobank issued a “**buy**” recommendation for Erste Bank confirming this assessment in a further study in March. ABN AMRO’s analysts also issued a „buy“ recommendation. In their March survey, **Warburg Dillon Read** upgraded Erste Bank’s shares from “buy” to “**strong buy**”. Erste Bank was also given a positive rating in a new analyst report by **Dresdner Kleinwort Benson** with an unchanged recommendation to “**add**”, while analysts at **Raiffeisenzentralbank** recommended to “**overweight**” Erste Bank shares. The number of banks continuously monitoring Erste Bank shares has grown significantly in recent months, illustrating the market’s interest in Erste Bank shares.
- From 26th April to 5th May 1999, Erste Bank conducted its “**Spring Roadshow**”, travelling to the United States in the first week before going on to visit Paris, London, Frankfurt and Munich. This time around, interest focused on Erste Bank’s savings bank strategy and on the bank’s cost reduction project.
- The “**1999 Global Bank and Financial Services Conference**” held by Warburg Dillon Read in New York at the end of April, gave Erste Bank an opportunity to give a presentation on the subject of “value-added through consolidation”. The presentation was made to a forum of investors and top managers from international banks and financial institutions.
- Together with **Goldman Sachs**, at the beginning of May Erste Bank organised an evening for international investors at the Vienna Secession art gallery. The event enabled **some 60 fund managers and analysts from international investment houses** to find out more about Erste Bank’s strategies and the development of its business. They also had an opportunity to pose further in-depth questions in discussions with members of the Managing Board and managers of Erste Bank’s key business areas and service units.

**Erste Bank share price
relative to ATX (rebased)
May 7, 1999**



Erste Bank share performance to May 1999

Erste Bank share price indicators

Price on 7th May 1999	EUR 53.76
High 1999 (4/5/1999)	EUR 56.00
Low 1999 (25/1/1999)	EUR 37.77
P/E ratio per May 7th 1999	13.20
Stock exchange turnover (1st quarter 1999)	EUR 449.77 million
Market capitalisation on 7th May 1999	EUR 2.28 million

⁽⁴⁾ Basis: earnings per share EUR 4.08 (average 1999 estimate by leading analysts)

In contrast to international stock exchanges, the Austrian stock market was characterised by weak share price performance following the introduction of the Euro. With the recurrence of the financial crisis in Brazil, financial stocks came under particular pressure once more, and in January 1999 Erste Bank shares underperformed the ATX. February and March marked the recovery of both the index and Erste Bank shares, with Erste Bank's share price rising by over 27% from their low for the year (at the end of January) by the end of March. Although the commencement of NATO operations in Kosovo only slightly depressed the Vienna market, international share trading has again been more severely dampened by this conflict since the beginning of May. On 4 May 1999 Erste Bank shares reached their high for the year so far at EUR 56.00. On 7th May 1999 their price stood at EUR 53.76, representing a rise of 17.9% since the beginning of the year.

Investor Relations

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Important dates for shareholders

1st June 1999	Annual General Meeting
7th June 1999	Ex-dividend day
7th June 1999	Dividend payment day & payment of "cash bonus" to retail investors in 1997
	Erste Bank IPO
29th July 1999*	Press conference and publication of interim results
27th October 1999*	Publication of results for 3rd quarter
20th September – 6th October 1999*	Erste Bank "Autumn Roadshow"

* current planning