

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

- **Improvement in operating profit of 8.8%** to ATS 3,440 million
- **Operating income increased** in the first three quarters **by 4.2%** to ATS 12,848 million
- **Operating expenses increased at a reduced rate of 2.5%** to ATS 9,408 million
- **Commission and fee income rose 6.9%** to ATS 3,309 million, while the **net interest income** was also **up 4.2%** to ATS 7,699 million



- **Result of ordinary activities**, at ATS 1,975 million, **is up 13.4%** year on year



This quarterly report contains information on the **new quality standards** in Erste Bank's core business in Austria, and on **developments in the extended home market** in Central Europe.

Focus on core business

For the Banking sector, as with many industries today, the customer is increasingly becoming the driving force behind new developments.

Erste Bank has set itself the goal of recognising the changing requirements of its customers and predicting future trends as a basis on which to build and maintain a first class service. This has led to a change in the bank's whole customer financial service philosophy and a **new approach to the concept of counselling**. During the last few months this provision has been introduced in the bank's branch network, forming the focus of these branches' activities during the third quarter.

The new approach is to conduct a **comprehensive analysis of the customer's overall financial situation**, rather than concentrating purely on the sale of products. The aim is to provide, through intensive discussion with the customer and based on Erste Bank's analytic tools „Finanzplan“ and „Finanzcheck“, a package of products **tailored to their personal situation**, lifestyle and goals for the future.

Erste Bank aims to establish a **core expertise** in the provision of these **individually tailored solutions**.

In order to effectively implement this new approach of advisory services, **Erste Bank's personal client advisors** have been **trained in what is a new form of counselling for Austria**. Although extra capacity is required for this more intensive involvement with customers, this has been freed up through the streamlining of backoffice and administrative processes.

In co-operation with the savings bank sector, **this new advisory concept will also be offered to savings bank customers in future**. Standardised in-depth training of staff is designed to ensure a superior quality of advice throughout the entire sector.

Erste Bank's extended home market

Erste Bank is consistently continuing to **implement its strategy of developing an extended core market in Central Europe**. Erste Bank, together with the savings banks, has established itself as a leading supplier of financial services for retail and corporate customers, as well as small to medium-sized enterprises, in a core market covering the Czech Republic, Hungary and Croatia. In the medium term it will also extend to Slovakia and Slovenia.

As of 30th September 1999, Erste Bank's investment in banking operations in Central and Eastern Europe totalled **ATS 1,095 million**. Together with its subsidiaries Erste Bank Hungary Rt. in Hungary, Erste Bank Sparkassen (CR) a.s. in the Czech Republic, Bjelovarska banka d.d. and Trgovacka banka d.d. – the latter acquired at the end of

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September 1999 – in Croatia, Erste Bank currently has 90 branch offices and 1,580 employees in a total market of 30 million inhabitants.

Together with Steiermärkische Bank und Sparkassen AG, Erste Bank signed an agreement to purchase a 94.3% holding in Trgovacka banka d.d. in Zagreb. The agreement came into force with effect from 29th October 1999. This purchase has enabled Erste Bank to further reinforce its activities in Croatia in both the retail and corporate banking sectors, and in particular to further enhance its service to international and Austrian customers. In this context, the bank's presence in the Zagreb area is of particular significance, as this is where nearly 40% of Croatia's economic output is generated.

When the banking sector was privatised in the Czech Republic, Erste Bank applied to purchase a majority holding (52%) in Ceska Sporitelna a.s.. As successor to the former state savings bank, Ceska Sporitelna is the second largest bank in the Czech Republic, with around 950 branches and a market share of over 35 % in the retail banking segment. The two banks complement one another extremely well thanks to Ceska Sporitelna's strategic approach and market orientation towards private retail clients and small to medium-sized enterprises. Though other international financial institutions have expressed an interest in the acquisition, the Czech government has selected Erste Bank to enter into exclusive negotiations with the national privatisation fund in September 1999. A decision is expected by the middle of 2000 at the latest.

Brief overview of other developments within Erste Bank Group

- On 14th October, 1999, Erste Bank received the „Award for Premium Banking Quality“. This prize was awarded for the first time this year by the banking department of Vienna School of Economics and the daily newspaper „Die Presse“ in recognition of first-class service, customer satisfaction and quality management.
- The transfer of 53 regional branch offices of Erste Bank to the savings banks of the provincial capitals of Upper Austria, Salzburg and Carinthia that was an integral part of the agreement on sectoral co-operation was formally concluded on 11th October 1999. In return, Erste Bank increased its interest in Salzburger Sparkasse to 74.5% and received a total stake of 26.9% in Sparkasse Oberösterreich and a 10% holding in Kärntner Sparkasse. This concludes an important move towards consolidating the Austrian savings bank sector, whilst at the same time giving it greater regional muscle.
- In October 1999, „Thomson Bankwatch“ published a survey ranking Bjelovarska banka d.d. number 13 in Croatia measured in terms of its balance sheet total in the year 1998. Based on its return on equity, it is Croatia's top bank, and indeed it is one of the most profitable banks in all of Central and Eastern Europe. Erste Bank and Steiermärkische Sparkasse jointly hold a 62% stake in Bjelovarska banka d.d..
- The cost reduction programme that has been running since June 1999 took its planned course also in the third quarter. The measures focused on back office operations and the reduction of material costs. To some extent, the effects of cost reductions and the resulting savings were already reflected in the third quarter of 1999. However, the majority of these measures will take effect in the profit and loss account for the year 2000.

Erste Bank Group Balance Sheet as of 30th September 1999

	ATS million		EUR million		+/- %
	31. December 98	30. September 1999	31. December 98	30. September 1999	
Assets					
1) Cash in hand, balances with central banks and post office banks	9,263	6,864	673	499	-25.9
2) Treasury bills and other bills eligible for refinancing with central banks	45,267	43,742	3,290	3,179	-3.4
3) Loans and advances to credit institutions	190,601	217,127	13,852	15,779	13.9
4) Loans and advances to customers	374,029	394,242	27,182	28,651	5.4
5) Debt securities and other fixed income securities	44,696	48,059	3,248	3,492	7.5
6) Shares and other variable-yield securities	13,414	20,352	975	1,479	51.7
7) Participating interests	5,523	5,748	401	418	4.1
8) Shares in affiliated undertakings	1,622	1,598	118	116	-1.5
9) Other assets	31,001	28,337	2,253	2,059	-8.6
Total Assets	715,416	766,069	51,991	55,672	7.1
Liabilities and Shareholders' Equity					
1) Amounts owed to credit institutions	301,793	329,159	21,932	23,921	9.1
2) Amounts owed to customers	269,378	270,288	19,576	19,642	0.3
a) Savings deposits	187,372	187,107	13,617	13,597	-0.1
b) Other deposits	82,006	83,181	5,960	6,045	1.4
3) Debts evidenced by certificates	69,594	86,304	5,058	6,272	24.0
4) Provisions	11,079	10,269	805	746	-7.3
5) Subordinated liabilities	15,416	16,059	1,120	1,167	4.2
6) Supplementary capital	8,882	10,388	645	755	17.0
7) Subscribed capital	4,441	4,441	323	323	0.0
8) Reserves	15,667	16,596	1,139	1,206	5.9
8) Other liabilities	19,166	22,565	1,393	1,640	17.7
Total Liabilities and Shareholders' Equity	715,416	766,069	51,991	55,672	7.1
Total Equity (incl. minority interests and net income)	22,372	24,598	1,626	1,788	9.9
thereof Shareholders' Equity (excl. minority interests)	20,108	21,037	1,461	1,529	4.6
Off balance sheet items					
Contingent liabilities	32,843	41,011	2,387	2,980	24.9
of which:					
a) Acceptances and endorsements arising from rediscounted bills of exchange	2	4	0	0	100.0
b) Guarantees and assets pledged as collateral security	31,293	40,090	2,274	2,913	28.1

Summarised Profit & Loss Account of Erste Bank Group as of 30th September 1999

	ATS million		EUR million		+/- %
	Jan.-Sept. 98	Jan.- Sept. 1999	Jan.-Sept. 98	Jan.- Sept. 1999	
1) Interest income and similar income	29,740	29,564	2,161	2,148	-0.6
2) Interest expense and similar expenses	-22,970	-22,661	-1,669	-1,647	-1.3
I. NET INTEREST INCOME	6,770	6,903	492	502	2.0
3) Income from shares, other equity instruments and variable-yield securities	318	456	23	33	43.4
4) Income from participating interests and shares in affiliated undertakings	302	340	22	25	12.6
5) Net commission and fee income	3,094	3,309	225	240	6.9
6) Net profit from trading activities	1,022	1,137	74	83	11.3
7) Other operating income	830	703	60	51	-15.3
II. OPERATING INCOME	12,336	12,848	896	934	4.2
8) Personnel expenses	-5,185	-5,331	-377	-387	2.8
9) Other administrative expenses	-2,523	-2,558	-183	-186	1.4
10) Depreciation and amortisation of fixed assets	-828	-984	-60	-72	18.8
11) Other operating expenses	-639	-535	-46	-39	-16.3
III. OPERATING EXPENSES	-9,175	-9,408	-667	-684	2.5
IV. OPERATING RESULT	3,161	3,440	230	250	8.8
12) Revaluation in respect of loans and advances as well as of contingent liabilities	-1,644	-1,622	-119	-118	-1.3
13) Revaluation/selling in respect of financial investments	224	157	16	11	-29.9
V. RESULT OF ORDINARY ACTIVITIES	1,741	1,975	127	144	13.4

Balance sheet and profit & loss account of Erste Bank Group in the third quarter 1999

The focused strategy of Erste Bank, centering on three areas – core business, savings banks and Central Europe, has produced clearcut positive results in the first nine months of 1999.

The operating result increased by 8.8% compared with the first nine months of 1998 (an increase from ATS 3,161/EUR 230 million to ATS 3,440/EUR 250 million). The result of ordinary activities increased from ATS 1,741/EUR 127 million to ATS 1,975/EUR 144 million, representing an improvement of 13.4%.

Net interest income

The stabilisation of net interest income that set in during the last two quarters continued, a circumstance which was also reflected in a rise of almost 2% in net interest income proper (from ATS 6,770/EUR 492 million to ATS 6,903/EUR 502 million). Net interest income including income from securities

and participating interests increased by 4,2% to ATS 7,699/EUR 560 million in the three first quarters of 1999 year on year.

Net commission and fee income

The bank's focus on its core competencies (including asset management, real estate finance and services for small to medium-sized corporate customers) was reflected in an increase in commission and fee income of almost 7% (from ATS 3,094/EUR 225 million to ATS 3,309/EUR 240 million). This was mainly due to the strength of insurance business and asset management, as well as higher earnings from project finance business. On the other hand, securities commission stagnated due to the general situation on the stock market and the development of market interest rates, which made investors tend to leave their securities portfolios unchanged.

Net profit from trading activities

The cumulative result for the first nine months of 1999 shows

an 11.3% increase to ATS 1,137/EUR 83 million, mainly due to significant improvements in the profitability of domestic securities and derivatives business as well as foreign exchange trading at Central European subsidiaries.

However, as expected, foreign exchange business in the Euro zone declined.

Other operating income

Other operating income consists principally of income from construction services, external income from suppliers, payments linked to the completion of leasing and mortgage contracts, rent and earnings from the re-invoicing of real estate leasing charges. These are offset by the expenses summarised under the item other operating expenses. The reduction in other operating income is paralleled by a decrease in other operating expenses resulting primarily from increased netting between these two items.

Operating income

Erste Bank achieved an increase of 4.2% (ATS 512 million) in overall operating income to ATS 12,848/EUR 934 million in the first nine months. In the third quarter of 1999 operating income increased by 6.1% (ATS 244 million) to ATS 4,272/EUR 310.4 million as compared to the third quarter 1998, mainly due to the marked increase in net interest income.

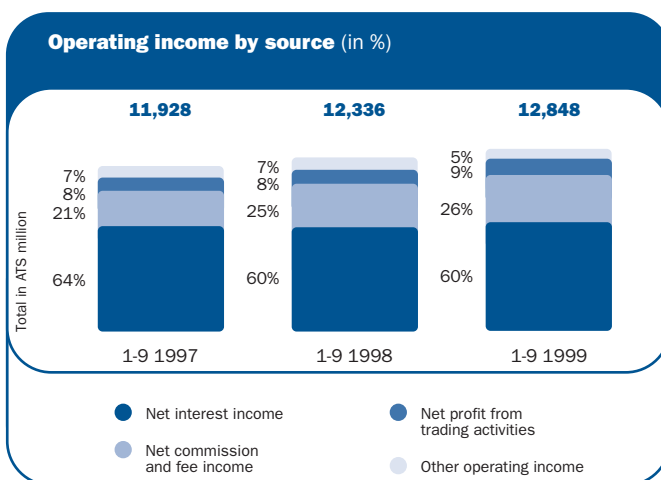
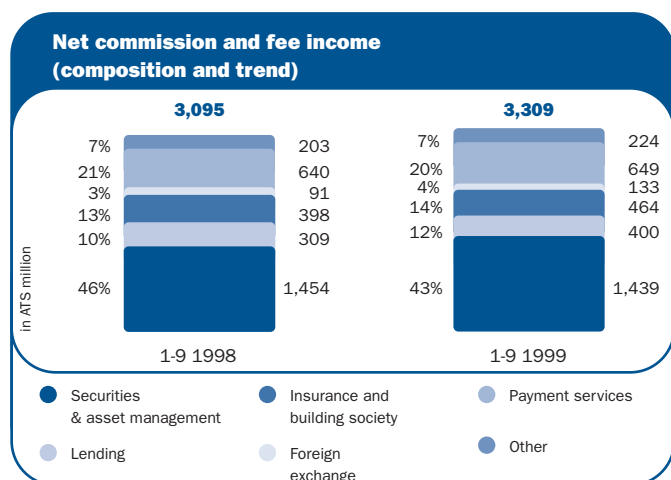
Personnel expenses

Personnel expenses increased by only 2.8% in the first nine months to ATS 5,331/EUR 387 million (against ATS 5,185/EUR 377 million in the same period last year). This increase was largely due to the first time consolidation of subsidiaries (including Spardat GmbH and the savings bank publishing and marketing organisation Sparkassenverlag/GESCO) as well as a transfer of expenses from the administrative to the personnel line item. Excluding these changes would decrease personnel expenses by 0.3%.

During the current financial year, the total workforce has been reduced by 367 employees (-3.6 %) compared to 31st December, 1998 (adjusted for the change in the number of companies consolidated). This does not take into account the transfer of branch offices to the savings banks in the provincial capitals of Upper Austria, Carinthia and Salzburg.

Other administrative expenses

General administrative expenses increased by a modest 1.4% to ATS 2,558/EUR 186 million in the first nine months. This expense figure also shows (after consideration of the changes in consolidation procedure) that the cost reduction programme initiated in the first quarter of this year is beginning to bear fruit.



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Depreciation

The requirement for the depreciation of tangible fixed assets and intangible fixed assets (software) was significantly higher than for the same period of the previous year. This was mainly attributable to **increased capital expenditure, especially for information technology**, some of which occurred in 1998, and special depreciation resulting from the restructuring of the branch network.

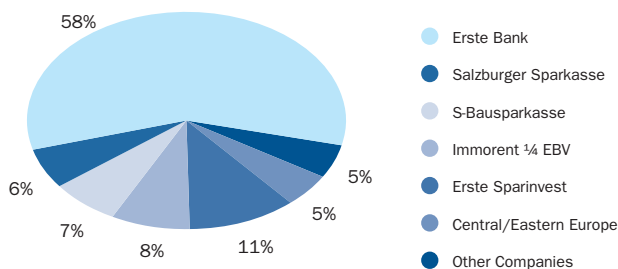
Operating expenses

Operating expenses increased by 2.5% in the first nine months from ATS 9,175/EUR 667 million to ATS 9,408/EUR 684 million as compared to the same period of the previous year. In the third quarter operating expenses increased more slowly, rising by 1.9% to ATS 3,174/EUR 230.6 million.

Operating profit

The operating result grew by 8.8% or from ATS 3,161/EUR 230 million to ATS 3,440/EUR 250 million year on year.

Share of key operating companies in operating profit in Q3 1999



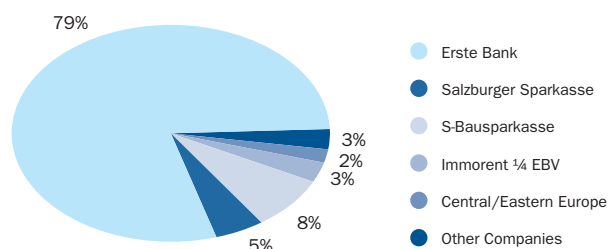
Result of ordinary activities

The operating result adjusted for risk provisions and value adjustments yields the **result of ordinary activities**, which increased by 13.4% from ATS 1,741/EUR 127 million to ATS 1,975/EUR 144 million in the first nine months and as compared to the same period of the previous year.

Development of the Erste Bank Group's balance sheet

Erste Bank achieved a 7.1% (ATS 50.7/EUR 3.6 billion) increase in total assets to ATS 766.1/EUR 55.6 billion at 30.9.1999, compared with end 1998.

Share of key operating companies in total assets



Assets

Cash including balances with central banks decreased by 25.9% compared with end 1998. Loans and advances to credit institutions increased substantially by ATS 26.5/EUR 1.9 billion (+13.9%) and to ATS 217.1/EUR 15.8 billion. This growth was largely attributable to short term lending business which is currently running ahead of the full year target, by end 1999 the figure is expected to decline to the expected level of around ATS 200/EUR 14.5 billion.

An amount of ATS 394.2/EUR 28.6 billion shown under the item **loans and advances to customers** represents a marked increase of 5.4% compared to the year-end 1998.

Largest asset items on balance sheet

In million	9/1998		12/1998		9/1999	
	ATS	EUR	ATS	EUR	ATS	EUR
Loans and advances to banks	216,291	15,718	190,601	13,852	217,127	15,779
Loans and advances to customers	379,352	27,569	374,029	27,182	394,242	28,651
Securities portfolio	106,852	7,765	103,377	7,512	112,153	8,150
Other assets	66,656	4,844	47,409	3,445	42,547	3,092
Total assets	769,151	55,896	715,416	51,991	766,069	55,672

Liabilities

Compared with year end 1998 amounts owed to credit institutions increased by 9.1% to ATS 329.2/EUR 23.9 billion. In parallel with this, there was also a 5.5 % increase in primary funds (amounts owed to customers, debts evidenced by certificates, subordinate capital and supplementary capital) from ATS 363.3/EUR 26.4 billion to ATS 383/EUR 27.8 billion. Due to the increased number of new issues, the biggest rise (+24 % compared to the year-end 1998) was in debts evidenced by certificates.

The increase in equity capital since year end 1998 was mainly due to the issue of sub-tier 1 capital in the amount of EUR 100 million in February 1999.

Largest liability items on balance sheet

In million	9/1998		12/1998		9/1999	
	ATS	EUR	ATS	EUR	ATS	EUR
Amounts owed to banks	337,674	24,540	301,793	21,932	329,159	23,921
Primary funds	361,279	26,255	363,270	26,400	383,039	27,837
Equity including minority interests	21,457	1,559	22,372	1,626	24,598	1,787
Other liabilities	48,741	3,542	27,981	2,033	29,273	2,127
Total liabilities	769,151	55,896	715,416	51,991	766,069	55,672

Capital resources

The core capital ratio at 30th September 1999 was unchanged at 6.1%, while the solvency ratio was 10.8%. Both figures are almost unchanged compared with year end 1998, since the increase in own funds was counterbalanced by significant growth in risk-weighted assets.

As of 30th September 1999, the capital resources required under Section 22 of the Austrian Banking Act amounted to

ATS 34 / EUR 2.4 billion. This compares with own funds (including tier 3 capital) totalling ATS 46.2 / EUR 3.3 billion, resulting in a cover ratio of 136.0%.

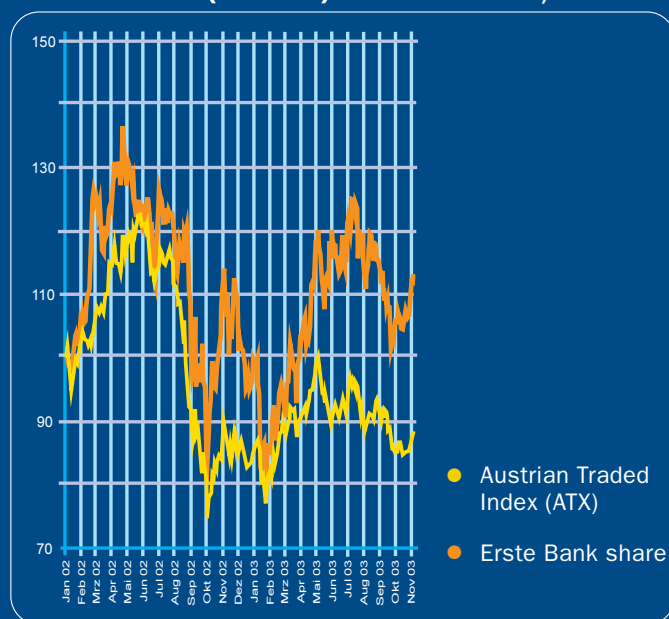
The core capital ratio as of 30th September 1999 was lower than that reported at the end of previous periods due to an above-average volume of interbank business and securities holdings. These resulted in a significant increase in risk-weighted assets.

In ATS billion	9/1998	12/1998	9/1999
Risk-weighted assets	382.5	364.5	389.4
Core capital	21.8	22.2	23.8
Core capital ratio in %	5.7	6.1	6.1
Qualifying capital	38.7	40.2	42.1
Solvency ratio in %	10.1	11.0	10.8
Total capital resources	43.4	43.7	46.2
Total capital requirement	32.2	32.1	34.0
Surplus capital	11.2	11.6	12.2
Cover ratio in %	135.0	136.0	136.0

Investor relations

- In September 1999, the international investment bank Goldman Sachs published a new analysis on Erste Bank, once again confirming the bank's rating as a „Market Outperformer“.
- On 19th October 1999, the Austrian economic monthly „Gewinn“ together with the Austrian Stock Exchange published their annual awards for the quality of market and shareholder information to companies listed on the Austrian Stock Exchange. Erste Bank received a prize in the new category for the quality of information provided to the international financial analysts community. Erste Bank was the only bank to receive an award this year.

Erste Bank share price performance relative to ATX (rebased) to 5th November, 1999



The international stock markets suffered setbacks during the third quarter due to investors' fears of inflation and rising interest rates in the USA and Europe. The ATX was also affected by these international developments. Against this background, Erste Bank shares performed better than the Austrian Stock Market, and have since experienced a sustained recovery from their low of EUR 46.55 at the end of September 1999. In particular, the market reacted positively to the publication of the quarterly results on 27th October, and the share price climbed again to over EUR 50.

On 5th November, 1999, Erste Bank shares were quoted at EUR 51.80, 13.6 % above their level at the beginning of the year. Thus the shares clearly outperformed the ATX, which rose by 3.8 % over this period.

Important dates for shareholders

23rd March 2000	Publication of preliminary results for 1999
20th April 2000	Publication of audited results for 1999 and press conference
8th May 2000*	Publication of results for 1st quarter 2000
11th May 2000*	Annual General Meeting
16th May 2000*	Ex-dividend day and dividend payment day
9th August 2000*	Publication of results for half year 2000

* currently scheduled date

Erste Bank share price indicators

Price at 5 th November, 1999	EUR 51.80
High 1999 (9.7.)	EUR 57.25
Low 1999 (25.1.)	EUR 37.77
P/E ratio per 5 th November 1999 ⁽¹⁾	12.73
Stock exchange turnover (3rd Quarter 1999)	EUR 312.50 million
Market capitalisation:	
at 4 th December 1997 (IPO price)	EUR 1.98 billion
at 5 th November 1999	EUR 2.30 billion

¹ Basis: earnings per share of EUR 4.07 (revised average 1999 estimate by leading analysts)

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