

For Immediate Release

23 March 2000

Erste Bank is very satisfied with 1999 preliminary results

- **Preliminary net profit increased 23.4% under IAS**
- **Substantial progress in implementing the three core strategies**
- **Comprehensive e-business strategy**
- **Customer base grew to 6 million in 3 years since IPO**
- **RoE target for 2000 achieved in 1999**

The financial year 1999 was a success for the Erste Bank Group. Major progress was made with the three core strategies: exploiting core business potentials, expansion based on the role as the central institution of the savings bank sector, and the establishment of a new core market in Central Europe. The company also reported strong earnings figures.

CEO Andreas Treichl said, "We succeeded in surpassing our financial targets as well as enhancing and strengthening our strategic position for future growth."

Erste Bank is now reporting according to International Accounting Standards (IAS). Both the 1998 and 1999 figures referred to in this announcement are stated according to IAS.

Erste Bank's results for last year were the best in the company's history and also exceeded the performance of its predecessor institutions Die Erste and GiroCredit. Erste Bank's total assets increased by 0.9% year on year to reach EUR 52.4 billion at end 1999, despite the sale of assets in the amount of around EUR 1 billion. The operating result increased by 6.1% and Group net profit after minorities by 23.4% compared with prior year figures.

The degree of success in 1999 was in particular evidenced by the achievement of a return on equity of 12% one year ahead of schedule. This target had been set for 2000 at the time of the IPO in 1997. The bank also moved closer to a second goal set for 2000, a Cost/Income ratio of 67%. Erste Bank's Cost/Income ratio dropped from 72% in 1998 to 70% in 1999.

The cost-cutting programme that the bank launched a year ago has also started to pay off. The evidence came in the form of a sharp drop in expenses for office space and through reductions in personnel, which ran according to plan. The increased awareness among staff about the importance of marketing and distribution also had a particularly positive effect on earnings.

Highlights of 1999: (all figures have been adjusted for the sale of selected regional branches)

- Administrative expenses down 2.4 % to EUR 821.7 million
- Commission and fee income up 5.2% to EUR 322.4 million
- Operating result up 6.1% to EUR 350.7 million
- Group net profit up 23.4% to EUR 164.6 million
- Cost/Income ratio 70.1% compared to 71.8% a year earlier
- RoE 12.1% compared to 10.5 % in 1998
- Total assets up 0.9% to EUR 52.4 billion
- Tier 1 ratio 6.3%

PROFIT AND LOSS ACCOUNT

Erste Bank's results have exceeded the forecast made in December 1999. There was a particularly strong performance at subsidiaries **Salzburger Sparkasse** (Salzburg savings bank), **Immorent** (leasing) and **Erste Sparinvest** (the investment fund business).

Even after allowing for Erste Bank's sale of 53 branches in a number of Austrian federal states, **operating income** (net interest income, commission and fee income and trading income) was sustained at the prior year level. Also, the bank achieved a reduction of 2.4% in **operating expenses** (personnel, general and administrative and depreciation and amortisation).

	1998	1999	% change
	EUR million	EUR million	
Operating income	1,172.2	1,172.4	0.0
Administrative expenses	841.6	821.7	-2.4
Operating result	330.6	350.7	+6.1
Cost / income ratio	71.8 %	70.1 %	

In the past year the quality of income streams at Erste Bank further improved. The share of commission and net interest income in total income was over 90%, compared with 88.6% in 1998, with the share of trading income falling below 10%.

Composition of operating income

EUR million	1998	Share of operating income	1999	Share of operating income
Interest and similar income	733	62.5 %	736	62.8 %
Commission and fee income	306	26.1 %	322	27.5 %
Trading income	133	11.4 %	114	9.7 %
Operating income	1,172	100.0 %	1,172	100.0 %

Interest and similar income was marginally higher (+ 0.5%) despite the sale of regional branches. The change in net interest income and investment income was mainly due to the sale of the regional branches, which resulted in an increased stake for Erste Bank in the local savings banks.

	1998	1999	% change
	EUR million	EUR million	
Net interest income	673.5	665.4	-1.2
Investment income	37.1	44.5	+20.0
other interest like income	22.2	26.4	+18.9
Interest and similar income	732.8	736.3	+0.5

Risk provisions for loans (provisions for financial investments and off-balance sheet credit risks are reported under other operating expenses) increased by 26.8% year on year to EUR 132.5 million. Capital gains realised through the sale of regional branches (around EUR 44 million at the Erste Bank AG level, included in other operating income) were largely applied to risk provisions, which will have a positive effect on future earnings.

Strong underlying growth in **commission and fee income** of 9.8% was reduced – as expected – by the sale of regional branches, resulting in reported growth of 5.2% in 1999. The composition of commission and fee income was as follows:

	1998	Share (%)	1999	Share (%)	% change
	EUR million		EUR million		1998 /1999
Loans	34.1	11.1	36.8	11.4	8.2
Payment services	47.0	15.3	47.7	14.8	1.4
Securities operations	137.9	45.0	142.9	44.3	3.6
Insurance operations	21.0	6.9	25.4	7.9	21.0
Currency operations	26.0	8.5	26.2	8.1	0.8
Building societies and other business	40.5	13.2	43.4	13.5	7.2
Commission and fee income	306.5	100.0	322.4	100.0	5.2

Trading income, which also includes interest income and funding costs arising from trading positions, narrowed sharply compared with last year, falling 14.5% to EUR 113.7 million.

	1998	1999	% change
	EUR million	EUR million	
Securities trading	69.4	63.0	-9.2
Interest and equity derivatives	13.7	20.1	+46.8
Currency and metals trading	49.8	30.6	-38.7
Trading income	132.9	113.7	-14.5

Administrative expenses overall narrowed by 2.4% in 1999 compared with 1998 to EUR 821.7 million. The cost-cutting programme for personnel expenses (see also the personnel trend) started to show its first positive impact in 1999.

	1998	1999	% change
	EUR million	EUR million	
Personnel expenses	512.6	487.8	-4.8
General and administrative expenses	245.5	255.2	3.9
Depreciation on fixed assets	83.5	78.7	-5.7
Administrative expenses	841.6	821.7	-2.4

The increase in **general and administrative expenses** (+3.9%) was mainly due to increased investments in IT expenditure and upgrades at central European subsidiaries. Expenses for office space expenses also decreased.

The reduction in **headcount of over 900** includes the transfer of 311 staff to the regional savings banks in the context of the branch sales.

	31 Dec. 1998	31 Dec. 1999	% change
In Austria	7,737	6,944	-10.2
Outside Austria	1,589	1,472	-7.4
Overall	9,326	8,416	-9.8

Other operating results improved significantly, moving from an expense of EUR 19.8 million in 1998 to income of EUR 23.4 million. The increase was mainly due to the capital gains realised through the sale of regional branches and a decline in securities write-offs. The key components were as follows:

Other operating results	1998	1999
	EUR million	EUR million
Sales income from securities investment book	23.2	3.8
Valuation expense from securities investment book	-39.1	-20.2
Valuation income from investments (depreciation/appreciation)	-29.6	2.8
Sales income from investments	51.6	23.8
Valuation gain from sale of branches	-	44.0
Company value – depreciation	-14.2	-18.1
Risk provisions outside of loan business	-12.6	-12.8
Balance of other operating income/expenses	0.9	1.0
Other operating results	-19.8	23.4

Pre-tax profit increased to EUR 241.5 million, growth of 17% compared to 1998. The increase was principally due to the upturn in income (higher interest income and commission and fee income) and reduced administrative expenses.

Although pre-tax profit improved, **taxes on income and earnings** (primarily deferred tax accruals) were lower than in 1998, since the valuation gain from the sale of the regional branches in 1999 is tax-free under IAS.

The sharp increase in **minority interests** was due to the successful issue in 1999 of sub-tier-one capital in the amount of EUR 100 million. The distribution of this capital was assigned exclusively to minority interests. The increase was also due to the significant improvements at companies where Erste Bank Group holds minority stakes (in particular, Salzburger Sparkasse).

Overall **Group net profit** after minority interests was EUR 164.6 million, a 23.4% increase over 1998.

Return on equity was 12.1%, exceeding the goal set at the time of the IPO in 1997, of a 12% RoE in 2000.

The **calculation of the RoE** runs as follows:

	1998	1999
Equity (excl. minority interests) at 1. Jan. (EUR Mln)	1,242.6	1,314.2
Equity (excl. minority interests) at 31. Dec. (EUR Mln)	1,314.2	1,436.1
Average Equity (EUR Mln)	1,278.4	1,375.2
Less average holdings of own shares (at end of 12 month period) (EUR Mln)	-10.3	-17.2
Adjusted Average Equity (EUR Mln)	1,268.1	1,358.0
Net profit (EUR Mln)	133.4	164.6
RoE (%)	10.5	12.1

CAPITAL ADEQUACY AND EQUITY

Based on preliminary calculations, the tier-one capital ratio as of 31 December 1999 for the Erste Bank Group, according to the Austrian Banking Act, was 6.3% (1998: 6.1%) and the equity ratio was 10.8% (1998: 11%).

These developments, despite the significant reduction in business volume, reflect the fact that an increase of around 5% in the basis for calculation was largely compensated by an issue of sub-Tier-one capital in the amount of EUR 100 million as well as allocations to reserves that were in part below expectations, in particular at Erste Bank AG.

BALANCE SHEET

Total assets edged up slightly by 0.9% compared to the prior year to EUR 52.4 billion, despite the sale of branch assets in the amount of around EUR 1 billion.

The asset side was mainly influenced by reductions in interbank business and an above average increase in securities positions (investments available for sale and financial investments). Amounts owed to customers were marginally lower (- 0.2%), as the sale of 53 regional branches reversed underlying growth.

Risk provisions (excluding provisions for off-balance sheet activities) narrowed from EUR 1.20 billion to EUR 0.96 billion. The main reasons were the removal of fully value adjusted loans and the transfer of provisions as a result of the branch sales.

On the **liability** side, customer deposits were almost unchanged despite the branch sales.

Shareholders' equity based on IAS (not including minority interests) rose from EUR 1.31 billion in the prior year to EUR 1.44 billion as of 31 December 1999.

SUCCESSFUL IMPLEMENTATION OF THE THREE CORE STRATEGIES

Erste Bank's new advisory concept for private and corporate customers helped the bank achieve significant progress in **core business**. The innovative IT-based analytical tools **Finanzcheck** and **Finanzplan** mean the bank can meet the growing and changing needs of various clients throughout their lives by providing customised solutions. The new concept proved to be a winner soon after it was introduced. According to an internal analysis, 73% of customers purchased a new product of the Erste Bank Group following advice utilising the new analytical tools.

Erste Bank continued to reap benefits from its position as the **lead bank of the savings bank sector**. Progress in increasing market share and improving the profitability of the entire sector reached a new level in 1999.

As part of a plan for boosting sector cooperation, 53 regional branches of Erste Bank **were successfully transferred** to the savings banks of Upper Austria, Salzburg and Carinthia. In return Erste Bank obtained increased stakes in these savings banks, which reached 73.1% in Salzburg (SSK), 26.9% in Upper Austria (ASK) and 10% in Carinthia (KS).

Cornerstones of the savings bank strategy are **centralised product development, production and settlement activities** for the sector as well as achieving a consistent market appearance. At the same time it is intended to maintain a decentralised distribution structure, reflecting the independence of the savings banks, which are rooted in local markets.

A comprehensive joint marketing plan was drafted in mid-1999. This resulted in a **common logo** (the traditional red savings bank "S") combined with the word "Sparkasse" (savings bank) or "Erste Bank" (in blue). Also, in March 2000 a **joint marketing campaign** was launched across all media throughout Austria.

Ceska Sporitelna: the quantum leap and how it is to be financed

The acquisition of **Ceska Sporitelna (CS)**, the Czech Republic's second largest bank, constituted a quantum leap in the implementation of Erste Bank's Central Europe strategy. CS, soon to be integrated into the Erste Bank Group, has a market share of over 30% in the Czech Republic and is the clear market leader in retail business with a market share of over 35%. Market shares in key product areas are 40% in loans to private clients, 30% in mortgage business, and 70% in ATM and credit card business. CS also has a leading position in some niche markets, such as local government financing, where it has a share in excess of 50%.

The chief reason for selecting Ceska Sporitelna as a partner was **the excellent fit of the two banks in terms of structure and strategy**. At CS approximately 15,000 employees take care of over 3 million clients through over 900 branches. The acquisition provides Erste Bank with an **immediate and comprehensive branch network**, almost matching the Austrian savings bank sector in size. A customer base of over 3 million in the Czech Republic offers enormous potential for cross-selling products from other Erste Bank Group companies. CS offers a broad range of financial services, similar in scope to Erste Bank's. It includes the country's largest asset management company, the second largest building society as well as leasing, real estate and insurance companies.

The successful implementation of both the savings bank and Central European strategies has boosted the Erste Bank Group's customer base to six million clients. The link-up unlocks enormous cross-selling potential for all products of savings bank sector companies as well as scope for leveraging investments in new technologies across a much larger organisation with a lower cost per customer.

Financing the acquisition

Erste Bank will not issue equities to finance the CS transaction. It will take three capital market actions expected to yield proceeds of just under EUR 300 million. International financial investors are expected to provide a third of the amount, with negotiations currently in the final phase. As indicated at end February 2000, these partners are to acquire a stake of no more than 10 percent of Ceska Sporitelna's equity capital. An additional third is to be raised through the issue of a hybrid tier-one instrument, to take place in the first half of 2000. The remaining third will be raised through securitisation of selected parts of the loan portfolio, while ensuring that Erste Bank's Tier 1 ratio remains above 6%.

OUTLOOK – NEW TARGETS FOR THE ERSTE BANK GROUP

Following the acquisition of Ceska Sporitelna, which raised the Erste Bank Group's customer base above the six million mark, new financial goals have been set. By the year 2002 the Cost / Income ratio is to be lowered to 66%, while the return on equity is to be raised to at least 14%. Erste Bank also expects that, after allowing for a year of restructuring at Ceska Sporitelna in fiscal 2000, beginning in 2001 net profit will grow by an annual rate of 15-20%.

"new.com" is part of Erste Bank's fourth core strategy

Erste Bank is supplementing the 3 core strategies, that it has implemented with great success so far, with a new strategy. In order to capitalise on newly emerging business opportunities in its home market, Erste Bank will utilise the potential of the internet in all areas of activity and will pursue a clear focus on e-business products as its fourth core strategy.

A significant part of this strategy is a company provisionally named "new.com", which is in the process of being founded. This new Erste Bank subsidiary will introduce an online brokerage for the central European market later this year. Initially targeted at the Central European markets of the Erste Bank Group (Austria, Czech Republic, Hungary, and Poland), new.com is a virtual meeting place and will offer a multilingual Internet platform.

new.com will be among the first movers in the provision of e-Finance products in the region. As soon as summer 2000, new.com will launch a comprehensive information hub, providing data about central and eastern Europe's most important capital markets, companies, financial corporations, domestic stocks as well as internationally traded ADRs and GDRs of issuers in the region. With the business potential that the Erste Bank Group's customer base of six million represents, new.com will initially invest heavily in online brokerage business. By the end of the year 2000, customers in some of these markets will be able to trade.

ENDS

Detailed financial statements are attached. For further information please contact:

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Erste Bank Group preliminary 1999 profit and loss account according to IAS

EUR million (unless stated)	1998	1999	+/- %
I. Net interest income	732.8	736.3	0.5
Risk provisions for lending business	-104.5	-132.5	26.8
Commission and fee income	306.5	322.4	5.2
Trading income	132.9	113.7	-14.4
Administrative expenses	-841.6	-821.7	-2.4
Other operating income (expense)	-19.7	23.3	218.5
Extraordinary result	-	-	-
II. Pre-tax profit	206.4	241.5	17.0
Taxes on income	-58.9	-49.0	-16.7
III. Profit	147.5	192.5	30.5
Minority interests	-14.2	-27.9	96.9
IV. Net profit after minority interests	133.3	164.6	23.4

Erste Bank Group preliminary 1999 balance sheet

	EUR Million	31.12.1998	31.12.1999	%
Assets				
1. Cash reserve		740	940	27.0
2. Loans and advances to credit institutions		13,109	10,295	-21.5
3. Loans and advances to customers		26,467	26,405	-0.2
4. - Risk provisions for loans and advances		-1,198	-965	-19.5
5. Assets held for dealing purposes		1,648	1,397	-15.2
6. Investments available for sale		3,224	4,399	36.4
7. Financial investments		5,565	7,395	32.9
8. Intangible fixed assets		311	328	5.6
9. Fixed assets		592	583	-1.6
10. Other assets		1,532	1,666	8.7
Total		51,990	52,443	0.9
Liabilities				
1. Amounts owed to credit institutions		21,791	20,571	-5.6
2. Amounts owed to customers		19,483	19,533	0.3
3. Debts evidenced by certificates		5,096	6,360	24.8
4. Provisions		769	710	-7.7
5. Other liabilities		1,458	1,437	-1.4
6. Subordinated capital		1,766	1,968	11.4
7. Minority interests		313	428	36.4
8. Equity		1,314	1,436	9.3
Total		51,990	52,443	0.9

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