



Successful strategy: Erste Bank reports further increase in earnings

Erste Bank der oesterreichischen Sparkassen AG has defied the adverse market conditions in the first 3 quarters of 2001 and developments in the wake of the terrorist attacks on 11 September by continuing the good earnings performance reported in the first two quarters of the year. "The past weeks have shown that it is no mean feat to be able to present **good results** in the current environment and that it is also important in turbulent times to stick resolutely to one's chosen strategy" commented Andreas Treichl, CEO of Erste Bank upon the announcement of the bank's results for the first nine months of 2001.

Highlights of 9-month results:

Comparison of first 9 months 2001 against first nine months 2000, unless otherwise stated. Comparability of data is significantly impacted by consolidation effects. See footnote. *)

Total assets up by 14.5% from EUR 71.2 billion at year-end 2000 to EUR 81.5 billion at end September 2001

Net interest income for first nine months up 68.2% to EUR 1,058.7 million against EUR 629.3 million in the same period last year

Significant improvement in the **interest margin** from 1.44% to 1.77%

51% increase in **commission income** from EUR 278.5 million to EUR 420.6 million

Pre-tax profit up 22.4% from EUR 228.5 million to EUR 279.7 million

Group net profit up 10 % from EUR 137.1 million to EUR 150.8 million

Return on equity of 11.3% after 12.5%

Cost/income ratio down significantly from 71.3% to 67.8%

"Our **successful expansion into Central Europe**, which has brought us over eight million customers and over 11% of customer deposits to date and made us the **biggest financial services provider** in the region, is beginning to bear fruit for customers and shareholders alike," said Erste Bank's CEO Andreas Treichl.

"Our customers have access to the densest retail network and one of the broadest product ranges for their banking transactions, and shares in the Erste Bank Group have held up exceptionally well on the stockmarket. Whereas the majority of shareholders in banks have suffered losses of up to 50% on their shareholdings since the beginning of the year, shares in Erste Bank gained over 3% **) while shares in Ceska sporitelna, a.s. (CS) have risen by 31%", said Treichl, commenting on the results.

"Our strategy of transforming the savings banks (Sparkassen) in the Czech and Slovak republics has proven right, as can be seen from the **steady stream of new customers**, the **increase in customer deposits** in the region and the positive contributions from our Central European subsidiaries to the Group's favourable results", stated Reinhard Ortner, CFO of Erste Bank.

"We assume that the current economic instability will persist over the months ahead. However, we are convinced that we will be less affected by the fallout - as has hitherto been the case in recent months as well - because our expansion into Central Europe ensures a better balance of risks across markets with diverging trends and makes for heightened stability. We are therefore **sticking to our full-year target** of bringing the cost/income ratio down below 70%. With regard to our return on equity we are still somewhat cautious and expect a figure in the region of 12%. We expect the Group's net profit for the full year to exceed last year's level due to an anticipated continued improvement in operating results, despite higher risk provisions," Ortner continued.

Balance sheet development

Total assets of the Erste Bank Group increased by 14.5% over the first 9 months of the year to EUR 81.5 billion. Adjusted for the first-time consolidation of Slovenska sporitel'na, a.s., the increase was 8.2%.

There was a 15.8% increase in **loans and advances to customers**. This reflected the first-time application of IAS 39 (reclassification of credit surrogates), a slight (3%) increase in lending in Austria and a 43% increase in loans made outside Austria (mainly due to the consolidation of Slovenska sporitel'na, a.s. (SLSP)).

On the liability side, **customer deposits** grew by 15.6%, mainly due to the consolidation of SLSP but also due to the continued robust growth in deposits at CS. This underscores the leading position of both these banks in the retail area.

As a result, there has been a clear shift in Erste Bank's refinancing structure. At 30 September this year, 92% of loans to customers were funded by customer deposits, while after deducting loan loss provisions the figure even rises to 97%.

The bank's increased efforts to step up issuing activity have also resulted in an improvement in the bank's refinancing structure, with debts evidenced by certificates and subordinated capital growing by 15.1%.

Core capital was EUR 2.1 billion at 30 September 2001, representing a Tier 1 ratio of 6.1%. The solvency ratio was 10.3%, significantly above the statutory minimum of 8%.

Earnings development

The main factor behind this positive earnings development was the 68.2% increase in **net interest income** to EUR 1,058.7 million. A key contribution came from Austria, reflecting an improvement in the interest margin in domestic customer business. The strong overall result was also attributable to strong growth in Central Europe, good results in international operations as well as a positive contribution from asset and liability management, which was partially aided by the trend in interest rates.

Commission income grew 51% in the first 9 months, despite lower earnings in securities business due to the weakness of the markets.

The key contributors to growth in commission income were payments business (+145.1%), lending (+164.0%) and insurance commissions (+42%), with the majority of these contributions coming from both consolidation effects and organic growth attributable to Central European subsidiaries. This more than compensated for the decline in commissions from securities business (-11.3% to EUR 119.6 million).

The **trading result** increased 16.1% despite the difficult market environment, although the securities business reported a sharp drop in income.

Successful cost control programme

Erste Bank's ability to **keep costs stable** over most of the last four years is the result of its successful **cost reduction programme**. The 51.3 % increase in administrative expenses at a Group level to EUR 1,064.1 million was mainly due to the first-time consolidation of Ceska sporitel'na, a.s. and Slovenska sporitel'na, a.s. Adjusted for these special effects, costs were more or less flat (+0.7%) compared with the first nine months last year. **Personnel expenses** grew by 36.6.% to EUR 539.1 million (compared with a pro forma decline of 1.2% net of CS and SLSP), while **other administrative expenses** increased by 62.4% (pro forma +2.1%) to EUR 375 million. **Fixed asset depreciation** showed an above average increase, in particular due to investments in IT.

Increase in risk provisions

Net allocations to risk provisions for the period (at EUR 147.6 million) were 32% higher than a year earlier. The increase reflected significant growth in provisioning in the third quarter due to international developments, with increased provisions made primarily for domestic business with large corporate clients as well as for US operations. Erste Bank does not expect an improvement in the risk situation in the fourth quarter of the year.

The **operating result**, which is the sum of operating income (net interest income, net commission income and net trading income) less general administrative expenses, was EUR 506.1 million for the first 9 months, 79.1% up against the prior year period. The two new acquisitions, CS and SLSP, made a major contribution to this result with combined earnings of EUR 164 million. This further underscores the success and opportune timing of Erste Bank's expansion into the EU accession countries.

Erste Bank succeeded in reducing the cost/income ratio to 67.8% during the first 3 quarters, compared with 71.3% for the same period last year.

The deterioration in **other operating income** from EUR +57.8 million to EUR -78.8 million was in particular attributable to the fact that the prior year figures benefited from extraordinary income of EUR 55.6 million from the transfer of the Styrian branches.

Other negative factors included EUR 29 million in goodwill amortisation and EUR 30 million in payments by CS and SLSP to their respective state funds for deposit guarantees.

In addition, there were considerable write-downs on stock portfolios and industrial investments in 2001 - especially in September.

There was a **pre-tax profit** of EUR 279.7 million for Erste Bank, an increase of 22.4% over last year's nine-month figure. Group net profit after taxes and minority interests was up 10% on the prior year figure to EUR 150.8 million.

Despite the unfavourable market conditions and the turbulence following the events of 11 September, Erste Bank again achieved a favourable **return on equity (RoE)** of 11.3% in the first nine months of 2001.

Strong third quarter

Erste Bank achieved particularly strong growth in net interest income in the third quarter to EUR 388.7 million, representing an increase of 8.8% against the second quarter. Net commission income also increased marginally despite difficult market conditions (+0.6% to EUR 142.6 million). The trading result fell to EUR 26.9 million, representing a decline of -12.9% against the prior quarter. Total operating income (EUR 558.2 million) reached its highest level ever during the past quarter, with growth of 5.3% compared to the second quarter. Operating expenses were also at a high (EUR 366.3 million), but were only 1.9% higher than the prior quarter. The operating result before risk provisions of EUR 191.9 million was likewise way ahead of the first and second quarter figures (EUR 143.5 million and EUR 170.7 million respectively). The cost/income ratio has been persistently reduced during the course of the year, falling from 70.2% (Q1) to 67.8% (Q2) and 65.6% in the third quarter.

Risk provisions increased to EUR 54.5 million in the third quarter, representing increases of 13.3% and 21.1% against the first and second quarters respectively.

Notwithstanding this increase in risk provisions, the high quality of earnings at Erste Bank is evident from the operating result after risk provisions which, at EUR 137.4 million was the strongest quarter this year (compared with EUR 125.7 million in Q1 and EUR 95.4 million in Q2).

Acquisition opportunities

Negotiations to acquire Tyrolean Savings Bank

Erste Bank is in negotiations with Bayerische Landesbank regarding the possible acquisition of its 45.66% stake in Tiroler Sparkasse. Erste Bank views the acquisition of a stake in this savings bank as a means of strengthening co-operation with the savings bank sector in western Austria. A decision on whether take this opportunity forwards is expected before the end of this year. At the same time Erste Bank is negotiating the possible acquisition from Bayerische Landesbank of a 40% stake in Stavební sporitelna, the mortgage bank of CS.

Bid for leading Slovenian bank

Erste Bank was recently included on the shortlist of candidates bidding for a 34% stake in Slovenia's Nova Ljubljanska Banka (NLB). NLB would complement Erste Bank's retail strategy. The deadline for submitting firm bids expires on 31 December 2001. In preparing its bid, Erste Bank will take the interests of its shareholders, customers and employees into account and does not intend to pay any unwarranted premium for entry into the market.

Segment reporting

In the **retail and real estate segment** pre-tax profits declined from EUR 75.9 million to EUR 68.6 million (first nine months of 2000 and 2001 respectively). The RoE declined correspondingly from 16.1% to 13.4%. However, the cost/income ratio was reduced from 84.1% to 79.5%. Net of CS there was a significant decline in pre-tax profit (by EUR -61.9 million), mainly due to the spin-off of the Styrian branches last year as well as market-induced declines in securities commissions and foreign exchange business at Erste Bank. Adjusted for the exceptional impact from the branch spin-off the segment would have achieved modest growth in earnings. Overall, commissions grew by 77% to EUR 242 million. This was mainly due to the strong performance (EUR 120.4 million) at CS, which however only contributed two months of results to the same period last year. Further positive earnings trends were evident at Salzburger Sparkasse (savings bank for the Salzburg region), s-Bausparkasse (mortgage bank of the savings bank sector) and Erste Bank Hungary.

The **large corporate clients** segment reported a slight decline in pre-tax profit from EUR 109.2 million to EUR 107.0 million, with the RoE likewise declining (from 23.9% last year to 18.9% in the last 9 months). This was due to the fact that virtually flat earnings were set against increased risk weighted assets. However, the cost/income ratio (37.8%) was maintained at around the same level as last year (37.4%). Positive contributions to earnings came from foreign branches and international business based in Vienna. However, there were increases in risk provisions connected with macroeconomic developments.

Pre-tax profit in the **trading and investment banking segment** increased more than six-fold to EUR 110.4 million.

The RoE increased accordingly from 11.1% to 55.7%, while the cost/income ratio declined from 91.0% to 50.8%. The main reason for this extremely positive development was effective asset and liability management, taking advantage of changes in the yield curve. In addition, the positive development in commission income at CS contributed to this result. Overall commissions increased from EUR 18.3 million to EUR 27.8 million.

Turbulence on capital markets was the main cause of a decline in pre-tax profit and RoE in the **asset gathering segment** (from EUR 51.7 million to EUR 41.1 million and from 42.3% to 38.3% respectively). Deteriorating performance at Erste Sparinvest and reduced fund sales through bank branches contributed to the decline in earnings.

The negative contribution from the **corporate centre segment** grew from EUR -25.7 million to EUR -75.7 million. The main causes were a negative contribution from CS (goodwill amortisation and refinancing costs; last year CS was only included from Q3), the continued planned development of the internet subsidiary 'ecetra' and valuation adjustments in the investment portfolio.

*) In accordance with IAS rules Slovenska sporitel'na, a.s. was included in Erste Bank consolidated accounts as from the date the deal was signed (11 January 2001). This first-time consolidation makes a comparison of the income statements for the first 3 quarters of 2001 with those for 2000 more difficult. Another factor complicating the comparison is the fact that under IAS the results of Ceska sporitel'na, a.s. were only included as from August 2000 (the date the deal was closed) and are therefore only partially included in Group results for the first 3 quarters of 2000. In addition, it should be noted that the results of the Styrian branches transferred to Steiermärkische Bank und Sparkassen AG with effect from 30 September 2000 are contained in the comparative figures for the first 9 months of 2000. For detailed figures please see the attached tables.

***) Share price change from 1.1.2001 to closing price on 9.11.2001

Detailed Financials:

Balance Sheet according to IAS

in EUR m		EB ex SLSP				
		30/09/01	31/12/00	+/- %	30/09/01	+/- %
Assets						
1.	Cash and balances with central bank	2,276	1,146	98.6	2,010	75.4
2.	Loans and advances to credit institutions	20,341	19,472	4.5	19,171	-1.5
3.	Loans and advances to customers	36,179	31,238	15.8	35,525	13.7
4.	Risk provisions for loans and advances	-1,767	-1,544	14.4	-1,534	-0.6
5.	Trading assets	2,529	3,210	-21.2	2,482	-22.7
6.	Investments available for sale	3,003	3,932	-23.6	2,899	-26.3
7.	Financial investments	13,821	9,542	44.8	11,884	24.5
8.	Intangible fixed assets	808	605	33.6	622	2.8
9.	Tangible fixed assets	1,264	1,032	22.5	1,079	4.6
10.	Other assets	3,031	2,563	18.3	2,891	12.8
Total assets		81,485	71,196	14.5	77,029	8.2
Liabilities						
1.	Amounts owed to credit institutions	28,343	25,639	10.5	28,276	10.3
2.	Amounts owed to customers	33,353	28,841	15.6	29,630	2.7
3.	Debts evidenced by certificates	9,615	8,306	15.8	9,615	15.8
4.	Provisions	816	764	6.8	762	-0.3
5.	Other liabilities	3,740	2,527	48.0	3,302	30.7
6.	Subordinated capital	2,746	2,430	13.0	2,665	9.7
7.	Minority interests	1,031	833	23.8	955	14.6
8.	Equity	1,841	1,856	-0.8	1,825	-1.7
Total liabilities		81,485	71,196	14.5	77,029	8.2

II. Income Statement according to IAS

in EUR m		EB ex CS & SLSP *)					
		1.1.- 30.9.01	1.1.- 30.9.00	+/- %	1.1.- 30.9.01	1.1.- 30.9.00	+/- %
I.	Net interest income	1,058.7	629.3	68.2	662.8	565.2	17.3
	Risk provisions for loans and advances	-147.6	-111.9	31.9	-117.3	-97.7	20.1
	Net commission income	420.6	278.5	51.0	259.0	261.6	-1.0
	Net trading result	90.9	78.3	16.1	57.9	77.1	-24.9
	General administrative expenses	-1,064.1	-703.5	51.3	-637.4	-633.0	0.7
	Other operating results	-78.8	57.8	-236.3	-28.3	45.1	-162.7
	Extraordinary result	0.0	0.0	0.0	0.0	0.0	0.0
II.	Pre-tax profit for the period	279.7	228.5	22.4	196.7	218.3	-9.9
	Taxes on income	-55.9	-59.8	-6.5	-33.1	-59.2	-44.1
III.	Profit for the period	223.8	168.7	32.7	163.6	159.1	2.8
	Minority interests	-73.0	-31.6	131.0	-30.2	-22.6	33.6
IV.	Net profit after minority interests	150.8	137.1	10.0	133.4	136.5	-2.3

*) Pro forma after deduction of results, depreciation of goodwill and funding costs

Erste Bank Group Q3 2001 – Segment reporting (1)

in EUR m	Retail and Real Estate				Large Corp. Clients			
			excl. CS				excl. CS	
	1.-3.Q.2001	1.-3.Q.2000	1.-3.Q. 01	1.-3.Q. 00	1.-3.Q.2001	1.-3.Q. 2000	1.-3.Q. 01	1.-3.Q. 00
Net interest income	636.6	439.7	390.9	390.3	246.0	174.7	194.7	167.9
Risk provisions for loans and adv.	-83.0	-76.0	-71.9	-67.0	-59.2	-36.0	-45.1	-30.7
Net commission income	242.0	136.6	121.6	119.0	55.8	42.0	45.3	41.0
Net trading result	20.8	24.7	17.8	24.8	3.7	9.6	3.7	9.6
General administrative expenses	-715.1	-505.2	-445.8	-443.5	-115.5	-84.7	-82.3	-80.2
Other operating results	-32.7	56.0	5.2	56.0	-23.8	3.5	-19.2	3.5
Pre-tax profit	68.6	75.9	17.7	79.6	107.0	109.2	97.1	111.2
Average risk-weighted assets	13,543.4	13,512.5	12,602.3	12,724.6	15,030.6	13,112.9	13,666.0	11,970.5
Average attributed equity	680.4	628.1	633.1	591.5	755.0	609.6	686.5	556.5
Cost-income ratio	79.5%	84.1%	84.1%	83.0%	37.8%	37.4%	33.8%	36.7%
ROE based on net profit before tax	13.4%	16.1%	3.7%	17.9%	18.9%	23.9%	18.9%	26.6%
Business with savings banks (based on pre-tax profit)	-0.1	2.2	-0.1	2.2	5.9	4.1	5.9	4.1

in EUR m	Trading and Inv. Banking				Asset Gathering			
			excl. CS				excl. CS	
	1.-3.Q. 2001	1.-3.Q. 2000	1.-3.Q. 01	1.-3.Q. 00	1.-3.Q. 2001	1.-3.Q. 2000	1.-3. Q. 01	1.-3. Q. 00
Net interest income	94.4	15.2	78.0	7.5	2.0	-0.1	2.0	-0.1
Risk provisions for loans and adv.	-0.1	0.0	-0.2	0.0	0.0	0.0	0.0	0.0
Net commission income	27.8	18.3	18.9	19.2	69.7	83.9	69.7	83.9
Net trading result	70.3	41.2	52.9	40.0	0.0	0.0	0.0	0.0
General administrative expenses	-97.7	-67.9	-66.1	-63.3	-30.3	-32.1	-30.3	-32.1
Other operating results	15.8	10.6	9.7	0.5	-0.3	0.0	-0.3	0.0
Pre-tax profit	110.4	17.4	93.1	3.9	41.1	51.7	41.1	51.7
Average risk-weighted assets	5,262.0	4,475.6	2,862.3	2,466.4	13.0	12.3	13.0	12.3
Average attributed equity	264.4	208.1	143.8	114.7	0.6	0.6	0.6	0.6
Cost-income ratio	50.8%	91.0%	44.2%	95.0%	42.3%	38.3%	42.3%	38.3%
ROE based on net profit before tax	55.7%	11.1%	86.4%	4.5%	>100%	>100%	>100%	>100%
Business with savings banks (based on pre-tax profit)	13.2	16.6	13.2	16.6	7.4	10.1	7.4	10.1

Erste Bank Group Q3 2001 – Segment reporting (2)

in EUR m	Corporate Centre				Slovenská sporiteľňa	
	1.-3.Q. 2001	1.-3.Q. 2000	excl. CS		1.-3.Q. 2001	1.-3.Q. 2000
			1.-3.Q. 01	1.-3.Q.00		
Net interest income	-17.3	-0.3	-2.8	-0.4	97.0	-
Risk provisions for loans and adv.	0.0	0.1	0.0	0.0	-5.3	-
Net commission income	3.5	-2.3	3.5	-1.5	21.9	-
Net trading result	-16.4	2.8	-16.4	2.8	12.4	-
General administrative expenses	-10.7	-13.5	-12.9	-13.9	-94.7	-
Other operating results	-34.8	-12.4	-23.6	-15.0	-3.0	-
Pre-tax profit	-75.7	-25.7	-52.2	-28.0	28.3	-
Average risk-weighted assets	591.5	408.4	591.5	408.4	904.0	-
Average attributed equity	29.6	19.0	29.6	19.0	45.4	-
Cost-income ratio	-35.4%	>100%	-81.9%	>100%	72.1%	-
ROE based on net profit before tax	>-100%	>-100%	>-100%	>-100%	83.2%	-
Business with savings banks (based on pre-tax profit)	0.0	0.1	0.0	0.1	0.0	-

in EUR m	Total			
	1.-3.Q. 2001	1.-3.Q. 2000	excl. CS & SLSP	
			1.-3.Q. 01	1.-3.Q.00
Net interest income	1,058.7	629.3	662.8	565.2
Risk provisions for loans and adv.	-147.6	-111.9	-117.3	-97.7
Net commission income	420.6	278.5	259.0	261.6
Net trading result	90.9	78.3	57.9	77.1
General administrative expenses	-1,064.1	-703.5	-637.4	-633.0
Other operating results	-78.8	57.8	-28.3	45.1
Pre-tax profit	279.7	228.5	196.7	218.4
Taxes on income	-55.9	-59.8	-33.1	-59.2
Minority interests	-73.0	-31.6	-30.2	-22.6
Net profit after minority interests	150.8	137.1	133.4	136.6
Average risk-weighted assets	35,344.5	31,521.7	29,735.1	27,582.1
Average attributed equity	1,775.4	1,465.4	1,775.0	1,464.7
Cost-income ratio	67.8%	71.3%	65.1%	70.0%
ROE based on net profit before tax	21.0%	20.8%	14.8%	19.9%
ROE based on net profit after min. int.	11.3%	12.5%	10.0%	12.4%
Business with savings banks (based on pre-tax profit)	26.4	33.1	26.4	33.1