

# Interim Report

## 03/2003

### Erste Bank

The leading financial services provider in Central Europe

**Leadership: More than 11 million customers**

**Expansion: Acquired Hungary's Postabank**

**Ownership: Increased stake in Slovenská sporiteľňa**

**Merger: Third largest banking group in Croatia**

## Key figures (IFRS)

in EUR million

30 Sep 2003

31 Dec 2002

### Balance Sheet

Total assets	130,481	121,222
Loans and advances to customers	65,854	64,435
Amounts owed to customers	64,329	61,308
Shareholders' equity	2,601	2,481
Solvency ratio pursuant to Sec. 22 Banking Act	11,6%	11,0%
of which core capital ratio (Tier 1 ratio)	6,5%	6,3%

Jan-Sep 2003

Jan-Sep 2002

### Income statement

Operating result	1,016.6	841.5
Pre-tax profit	589.2	494.8
Net profit after minority interests	255.2	161.7

Jan-Sep 2003

Jan-Dec 2002

### Profitability

Interest margin in % of interest bearing total assets	2.31%	2.30%
Cost-income ratio	64.4%	67.9%
Return on equity (ROE)	13.4%	12.7%
Earnings per share (in EUR)	4.29	4.73

## Ratings

### FITCH

Long-term	A
Short-term	F1
Individual	B/C

### Moody's Investors Service

Long-term	A1
Short-term	P-1
Bank Financial Strength Rating	C+

### Standard & Poor's

Short-term	A-2
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## Performance of the Erste Bank share



Percentage changes in financial figures between two financial periods may differ slightly from non-rounded rates of change.

## Highlights

- > Increase of 7.6% in consolidated total assets, from EUR 121.2 billion (end of 2002) to EUR 130.5 billion at 30 September 2003.
- > Net interest income in the first three quarters of 2003 was up 5.4% compared to the same period one year earlier, from EUR 1,835.0 million to EUR 1,934.7 million. Net commission income increased by 4.6%, from EUR 695.2 million to EUR 727.5 million.
- > General administrative expenses rose by a modest 1.2% compared to the first three quarters of 2002, from EUR 1,815.8 million to EUR 1,837.0 million.
- > Operating profit climbed by 20.8% year-on-year, from EUR 841.5 million to EUR 1,016.6 million, and net profit after taxes and minority interests jumped by 57.8%, from EUR 161.7 million to EUR 255.2 million.
- > The cost-income ratio improved from 67.9% for the full 2002 financial year to 64.4% in the first three quarters of 2003.
- > The return on equity was strengthened further to 13.4% in the first three quarters (from 12.7% for the full year 2002).
- > The Tier 1 ratio as defined by the Austrian Banking Act stood at 6.5% on 30 September 2003 (versus 6.3% at the end of 2002).

\_\_\_\_\_ With the results for the first three quarters of 2003, Erste Bank again presents figures that underline its strategic strength and effective positioning in Central Europe: Since the initial public offering in 1997 Erste Bank has gone from strength to strength in its results by remaining true to its strategy as a retail bank. Given the economic environment of the past several years, this is a signal success and Erste Bank will continue to pursue this strategy vigorously in future. It is telling that, over the first three quarters, Erste Bank has already earned as much profit as in all of 2002. Management therefore confirms the guidance for the full year 2003 – an increase of at least 25% in net profit after minority interests.

\_\_\_\_\_ With Hungary's Postabank in place – for the moment the last building block in Erste Bank's Central European strategy – Erste Bank can now offer a complete retail network not just in Austria, but also in the Czech Republic, Slovak Republic, Hungary and Croatia. In combination with a long term growth surge stimulated by the EU's enlargement, management expects each subsidiary of the Erste Bank Group to realise sustained earnings growth in their core businesses and declining costs, as the modernisation of the distribution network is in large measure complete.

# Landmark achievements

## Erste Bank climbs to number two position in Hungarian retail banking

On 25 September 2003 Erste Bank received the green light for the acquisition of Hungary's Postabank és Takarékpénztár Rt. This union creates the second largest retail bank in Hungary by number of customers. The market share of Erste Bank, which has had a presence in Hungary since 1997 through Erste Bank Hungary, is rising from the current level of approximately 4% to 8%. All told, the two banks serve about 900,000 customers in Hungary from almost 200 branches. This extensive branch network is greatly reinforced by Postabank's strategic partnership with the Hungarian postal service, whose roughly 3,200 post offices amplify the banks' distribution capacity.

By vigorously strengthening its market position in the extended home market, Erste Bank has succeeded in widening its customer base further to about 11.6 million clients, confirming the Group's continued pre-eminence as the leading financial services provider in Central Europe.

The purchase price for 99.97% of the shares of Postabank is HUF 101.3 billion (EUR 394.1 million). This represents 2.7 times the equity reported in the audited IFRS financial statements at 31 December 2002. Total assets of Postabank at the end of 2002 stood at about EUR 1.7 billion. Approximately 480,000 customers are served at 113 branches by just under 1,600 employees. With a 10% market share, the leasing subsidiary Postabank Leasing too is a market leader in Hungary.

The integration of Postabank into Erste Bank Hungary begins in December 2003, immediately after the change in ownership. Here Erste Bank builds on the wealth of experience gained in the successful transformation of Česká spořitelna and Slovenská sporiteľňa, as well as this year's merger of Riječka banka and Erste & Steiermärkische Banka in Croatia. This solid foundation of expertise ensures Erste Bank's entrenchment in Hungary as a profitable retail bank and strong partner to its customers.

## Stake in Slovenská sporiteľňa increased

The purchase of an additional 2.82% equity interest in Slovenská sporiteľňa increased Erste Bank's stake in its Slovak subsidiary from 67.19% to 70.01%. The price paid in the acquisition on 22 September was SKK 3,250 per share, with a total transaction value of SKK 584.6 million (about EUR 14.1 million). This deal furthers Erste Bank's strategic aim of becoming the sole owner of its Central European banking subsidiaries. The other stakes in Slovenská sporiteľňa are held by the EBRD (19.99%) and the Slovak finance ministry (10%).

## Erste Bank third largest banking group in Croatia

The merger of the two Croatian subsidiaries – Erste & Steiermärkische Banka and Riječka banka (acquired in 2002) – was very successfully completed. With effect from 1 August, the two well-regarded institutions were combined to create Erste & Steiermärkische Bank (Erste Bank Croatia), the country's third largest banking group.

Erste Bank Croatia has some 600,000 customers. Its substantial network of 116 branches is located primarily in three areas: Istria (a densely populated region on the Adriatic that is a magnet for tourism) and the Zagreb and Rijeka areas. With a staff of around 1,400 employees, the bank's net profit in the first three quarters of 2003 reached HRK 180 million (EUR 23.9 million); total assets at 30 September 2003 were HRK 17.3 billion (EUR 2.3 billion). Erste Bank's market share in Croatia in terms of total assets grew to almost 10%. Moreover, the joining of the two institutions forms a superb starting position for further growth of the customer base. The energetic plans are backed by an expanded portfolio of services and an improved customer care model. The integration process was used to tighten the organisational structure, allowing decision-making to become more rapid and customer-centred.

Erste Bank Croatia is 77.3% owned by Erste Bank der oesterreichischen Sparkassen AG, while Steiermärkische Bank und Sparkassen AG holds 15.1%.

## Enhancing business performance in Austria

\_\_\_\_\_ Building on the latest strong business results, the management of Erste Bank intends to sustain the Group's good performance trend in the future. This means that all activities must be driven by profitability criteria and requires the continuous evaluation of every business area. To this end, Erste Bank is currently taking a critical look at all its business units. One of the areas receiving particular scrutiny is the branch business, which forms part of the Retail and Real Estate segment. In the thorough review underway, every location is examined both as to profitability and future market potential. For branches with a poor cost-income ratio, an action plan was developed to boost performance. As well, over the next three months, 14 branches that are not expected to improve profitability significantly will be closed. Their customers will be serviced by other nearby branches. These measures are to ensure that by the end of 2004, no branch will have a cost-income ratio of more than 90%.

\_\_\_\_\_ As well, through modifications in its lending to small and medium-sized enterprises (SME), Erste Bank improved the ratio of profit margins to risk costs. This approach is expected to lead to a reduction in the SME loan book from about EUR 2.2 billion at the start of 2003 to EUR 1.7 billion (including new loans) at the end of the year and result in an overall improvement in the performance of the SME business.

\_\_\_\_\_ Additionally, the management of Erste Bank has announced new measures that will further lower the Group's overhead. Thus, in addition to the savings of 6% already realised in 2003, the payroll budget for 2004/2005 is to be reduced by a total of about 260 employees in Austria.

\_\_\_\_\_ All of the steps described are contributing substantially to the fulfilment of the targets for 2005. Erste Bank intends to attain a cost-income ratio of 60% to 62% and net profit after minority interests of EUR 500 million, which is equivalent to a return on equity of at least 15%.

## Erste Bank puts insurance strategy into action

\_\_\_\_\_ True to its insurance-business strategy of concentrating on life insurance, Erste Bank further streamlined its insurance holdings in September 2003 by conditionally agreeing on the sale of the non-life insurance arm of Pojišťovna ČS (an insurance subsidiary of Česká spořitelna) to Kooperativa (the subsidiary of Wiener Städtische Versicherung in the Czech Republic). In the future the non-life insurance business will be handled by a strategic partnership between Česká spořitelna and Kooperativa. The likely time of the sale's finalisation (subject to receipt of the required approvals) is the first quarter of 2004. Pojišťovna ČS, owned by Česká spořitelna and s Versicherung, will then focus exclusively on life insurance. Erste Bank has thus continued its strategy of concentrating on core businesses and of capturing the cross-selling potential in this growing segment in the extended home market.

\_\_\_\_\_ As long ago as last year, the ownership structures of s Versicherung – the life insurer of the savings bank group and number one of the Austrian life insurance market – and Donau Allgemeine Versicherungsaktiengesellschaft (non-life insurance) were rearranged. Erste Bank acquired additional shares of s Versicherung from Donau and became the majority shareholder with an effective stake of 62.4%. The Austrian savings bank group as a whole owns 90% of the shares of s Versicherung.

# The Erste Bank share

## Performance of equity indices

\_\_\_\_\_ All major market indices rebounded strongly from the year-to-date low of 11 March 2003. The key drivers of the now almost seven-month-long rally in equity markets were the general improvement in stock market sentiment, interest rate cuts by the central banks in the United States and Europe, and the hopes of a US-led recovery in world economic activity. The economic optimism was supported by the publication of good corporate results and some positive macroeconomic indicators. In the first nine months of this year, most financial markets achieved double-digit gains. Their momentum strengthened further in October amid positive corporate reporting for the third quarter and growing signs of an emerging economic upswing. The IFO business climate index as well as American consumer confidence and US economic growth exceeded expectations in the third quarter of 2003.

\_\_\_\_\_ In the second quarter, the broad recovery in stock markets and good six-month figures of European banks had caused the DJ Euro Stoxx Bank Index to rise more steeply than the most important equity indices; in the third quarter the sector index then consolidated. The DJ Euro Stoxx Bank Index thus closed almost unchanged at the end of September at 221.13 points, down 0.8% for the quarter. In October the index continued its over-

all rise since the beginning of the year by advancing 9.8%. This renewed climb was fuelled mainly by the better-than-expected business results of European banks for the first three quarters of 2003. At its year-to-date high of 242.80 points on 31 October 2003, the DJ Euro Stoxx Bank Index was up 22.3% over the first ten months of the year. Overall, the index of European banks gained 11.4% in the nine months to the end of September 2003.

## Performance of Erste Bank share

\_\_\_\_\_ With an upward surge of 12.9% in the third quarter and a succession of new all-time highs, the positive trend of the Erste Bank share that had already been clearly visible in the first half of the year redoubled in the quarter under review. The share performance grew even stronger in October. On 30 October 2003, at EUR 96.69, the Erste Bank share reached its highest closing price ever. While the share's performance in the first nine months was 35.4%, its price of EUR 95.11 at the end of October marked a gain of 48.3% from the beginning of the year. The Erste Bank share thus strongly outperformed the ATX (the Austrian Traded Index), which rose by only 17.6% as of 30 September 2003 and by 23.6% to the end of October. Moreover, Erste Bank's share price also rose more strongly than the DJ Euro

## Erste Bank share price performance compared to DJ Euro Stoxx Bank Index and ATX (indexed)



Stoxx Bank Index by 26 percentage points. The chief factors behind this superb performance were the good business results reported and the continuation of the successful expansion strategy in Central Europe through the acquisition of Hungary's Postabank in October 2003.

## Investor relations

On 17 September 2003, Erste Bank held an international Capital Markets Day in Vienna. The purpose of the event attended by about 40 investors and analysts was to provide detailed insight into the strategic positioning and the current developments of the Erste Bank Group. The dominant subjects of the presentations were retail banking in Central Europe and the performance of the Austrian branch business.

In the course of its wide-ranging international road shows, Erste Bank for the first time travelled to Asia to evaluate the circle of potential investors and expand the investor base. The road show in early September took the Erste Bank team to the financial centres of Tokyo, Hong Kong and Singapore, where the bank's strategy and second-quarter results were presented to selected investors individually. Particularly keen interest from investors was generated by the consistently executed growth strategy and the market capitalisation of already more than EUR 5 billion.

In response to an invitation from global investment bank Merrill Lynch, Erste Bank outlined its current business developments at an international banking conference in London in early October. Here too a large investor base showed intense interest in the present trends at Erste Bank.

As an exhibitor at GEWINN-Messe, the annual investment trade fair in Vienna, Erste Bank again reached large numbers of private investors. In the "Star of the Hour" series of events at the trade show, interested investors used the opportunity for direct discussion with Erste Bank's top executives, finding out first-hand about current developments.

Erste Bank achieved a significant improvement in its debt rating thanks to the successful restructuring of the subsidiaries in Central Europe. The resulting positive assessment of the Group's risk profile prompted rating agency Fitch to raise Erste Bank's individual rating from C to B/C. Likewise, Moody's Investors Service upgraded the outlook for the financial strength rating from stable to positive.

As the first foreign share to be listed there, Erste Bank has been traded on the Prague stock exchange since 1 October 2002. With average daily turnover of almost 20,000 shares, Erste Bank demonstrates its unexpectedly high liquidity on this Central European exchange.

## Key figures for Erste Bank share

Share price at 31 October 2003	EUR 95.11
High for year to date (30 October 2003)	EUR 96.69
Low for year to date (11 March 2003)	EUR 58.45
Price-earnings ratio at 31 October 2003 <sup>1)</sup>	16.2
Trading volume to 31 October 2003	EUR 1,654.4 million
Market capitalisation at 31 October 2003	EUR 5.7 billion

1) Earnings per share: EUR 5.86 (IBES consensus forecast for 2003)

## Research reports on the Erste Bank share<sup>2)</sup>

- > BNP Paribas
- > Bank Austria Creditanstalt
- > Citigroup
- > Deutsche Bank
- > Dresdner Kleinwort Wasserstein
- > Fox-Pitt, Kelton
- > Goldman Sachs
- > HSBC
- > ING
- > JP Morgan
- > Lehman Brothers
- > Main First
- > Merrill Lynch
- > Patria
- > Raiffeisen Centrobank
- > UBM UniCredit Banca Mobiliare
- > UBS Warburg

2) This list comprises all institutions known to Erste Bank at press time that prepare research reports on the Erste Bank share.

## Developments at Erste Bank Group

\_\_\_\_\_ Since the beginning of 2002, the financial reporting of the Erste Bank Group includes the savings banks that are members of the cross-guarantee system.

\_\_\_\_\_ The comparison with the prior year must take into account that the third quarter of 2002 constitutes a relatively low base and that the ownership interest in Česká spořitelna was not increased until the summer of 2002. Nonetheless, given the persistent difficult market conditions, the year-on-year growth of 57.8% in net profit after minority interests in the first three quarters of 2003 represents an outstanding achievement.

\_\_\_\_\_ The vigorous earnings performance was made possible not just by the rising profit contribution from Central Europe, but also by an improvement in Austria, thanks above all to the effective management of costs.

\_\_\_\_\_ Concerning the year-on-year comparison, it must be taken into account that Riječka banka has been included in the consolidated financial statements only as of 29 April 2002. Furthermore, the expansion of Erste Bank's stake in Česká spořitelna occurred in the summer of 2002. This

resulted in higher goodwill amortisation during the period under review than in the prior-year period. On the other hand, the amount of minority interests to be deducted from profit for the period decreased.

### Earnings developments

\_\_\_\_\_ Net interest income remains the most significant income item. During the reporting period it grew by 5.4% year-on-year, from EUR 1,835.0 million to EUR 1,934.7 million. The explanation for this improvement lies in stronger credit demand, which led to volume growth at the subsidiaries in Central Europe. But net interest income also grew in Austria, especially in the asset/liability management. In addition, a gain from the at-equity valuation of the Group's Slovak building society contributed to the improvement.

\_\_\_\_\_ The interest margin (based on average interest-bearing assets) was 2.31% in the first three quarters of 2003, compared to 2.30% for the full year 2002 (interest-bearing assets are defined as total assets less

in EUR million	Jan-Sep 2003	Jan-Sep 2002	Change in %
Net interest income	1,934.7	1,835.0	5.4
Risk provisions for loans and advances	(298.6)	(272.2)	9.7
Net commission income	727.5	695.2	4.6
Net trading result	170.6	126.5	34.9
General administrative expenses	(1,837.0)	(1,815.8)	1.2
Income from insurance business	20.8	0.6	> 100.0
Other operating result	(128.8)	(74.5)	(72.9)
<b>Pre-tax profit</b>	<b>589.2</b>	<b>494.8</b>	<b>19.1</b>
<b>Profit for the period</b>	<b>418.6</b>	<b>377.2</b>	<b>11.0</b>
<b>Net profit after minority interests</b>	<b>255.2</b>	<b>161.7</b>	<b>57.8</b>
Cost-income ratio (in %)	64.4%	68.3%	-

the following: cash and balances with central banks, trading assets, tangible assets, intangibles and other assets). The interest margin in Austria, slightly below 2%, remained very low by European standards. In Central Europe, the interest margin was successfully maintained or in some countries improved to between 3.4% and 4.7% despite sharply falling interest rates.

\_\_\_\_\_ Net commission income was 4.6% higher than a year ago, up from EUR 695.2 million to EUR 727.5 million. This included a small increase in

the securities business (up 4%), made possible by the slight improvement in market conditions. As well, fees and commissions from payment services (notably in Central Europe) and building society intermediary business followed a particularly good trend.

\_\_\_\_\_ The net trading result, helped by the improving markets, grew at an impressive rate of 34.9%, from EUR 126.5 million to EUR 170.6 million. The improvement was especially pronounced in the derivatives and securities business, particularly in Austria.



\_\_\_\_\_ The income from insurance business comprises all net income from the insurance companies that are included in the Group's consolidated financial statements. In contrast to last year, when income from insurance business was set back by ailing capital markets and catastrophic floodings, it showed an above-average improvement to EUR 20.8 million in the first nine months of 2003.

\_\_\_\_\_ Under general administrative expenses, the first three quarters brought an above-average rise in depreciation and amortisation of fixed assets (up 13.3%), due mainly to higher IT investment. Despite the now-complete integration of Riječka banka, general administrative expenses were held nearly steady, inching up by only 1.2%. The Managing Board credits this fact to the rewards of cost control that are now beginning to be reaped. Administrative expenses in Austria (including Corporate Center and International Business) were reduced.

\_\_\_\_\_ A significant drop of 7.5% was also recorded in the Group's other administrative expenses. This is the result both of effective cost management in Austria and of economies achieved at Česká spořitelna, where the completion of the branch modernisation led to 12% lower administra-

tive expenses. The increase in this item at the Slovak subsidiary was caused in part by the fact that the Slovak branch modernisation (other administrative expenses up 10%) as planned, comes one year after Česká spořitelna's. Another reason is the adjustment of staff salaries to market levels (personnel expenses up 9%).

\_\_\_\_\_ The number of employees decreased during the first three quarters of 2003. As of 30 September 2003 the Group had a total staff count of 36,422 in terms of full-time equivalents, down from 36,923 at the end of 2002. Almost all of this reduction occurred in Austria, where the Group's workforce decreased by 464 employees, or 3%.

\_\_\_\_\_ Personnel expenses increased by 3.4% to EUR 1,041.1 million. While staff costs remained flat in Austria, they grew above-average at the Central European subsidiaries as a result of improvements in personnel quality and the associated pay increases to market levels.

\_\_\_\_\_ Total operating income (net interest income, net commission income, net trading result and income from insurance business) expanded by 7.4% in the first three quarters of 2003, from EUR 2,657.3 million to EUR 2,853.6 million.

#### General administrative expenses from 1 January to 30 September 2003

in EUR million	Jan-Sep 2003	Jan-Sep 2002	Change in %
<b>Erste Bank Group</b>			
Personnel expenses	1,041.1	1,006.6	3.4
Other administrative expenses	538.8	582.2	(7.5)
<i>Subtotal</i>	<i>1,579.9</i>	<i>1,588.8</i>	<i>(0.6)</i>
Depreciation and amortisation of fixed assets	257.1	227.0	13.3
<b>General administrative expenses</b>	<b>1,837.0</b>	<b>1,815.8</b>	<b>1.2</b>
<b>Austria (incl. Corporate Center and International Business)</b>			
Personnel expenses	798.0	797.7	0.0
Other administrative expenses	324.7	362.1	(10.3)
<i>Subtotal</i>	<i>1,122.7</i>	<i>1,159.8</i>	<i>(3.2)</i>
Depreciation and amortisation of fixed assets	151.7	146.1	3.8
<b>General administrative expenses</b>	<b>1,274.4</b>	<b>1,305.9</b>	<b>(2.4)</b>
<b>Central Europe</b>			
Personnel expenses	243.1	208.9	16.4
Other administrative expenses	214.1	220.1	(2.7)
<i>Subtotal</i>	<i>457.2</i>	<i>429.0</i>	<i>6.6</i>
Depreciation and amortisation of fixed assets	105.4	80.9	30.3
<b>General administrative expenses</b>	<b>562.6</b>	<b>509.9</b>	<b>10.3</b>

\_\_\_\_\_ The operating result grew substantially by 20.8% to EUR 1,016.6 million.

\_\_\_\_\_ The cost-income ratio – general administrative expenses as a share of operating income – eased to 64.4% at the end of the third quarter of 2003, a substantial improvement on the figure of 67.9% reported for the full year 2002.

\_\_\_\_\_ During the 2003 reporting period, risk provisions for loans and advances were up 9.7% from one year earlier. In 2002 a particularly large increase came in the fourth quarter. As this effect is not likely to recur this year, the Group does not expect risk provisions for loans and advances for the full year 2003 to be any higher than for 2002. This forecast is supported by a sequential decline in risk provisions from quarter to quarter. The favourable trend was very pronounced in the Central European operations (also when taking into account that the positive one-off effects in 2002 did not recur in 2003), thanks largely to the completion of restructuring, improved risk management and a very conservative lending policy. Business in Austria, on the other hand, remains affected by the general economic slowdown, giving rise to a 7% net increase in risk provisions.

\_\_\_\_\_ Other operating result represents the balance largely of the following items: revaluation results and disposal proceeds from equity interests or securities not classified as trading assets; provisions not related to lending; goodwill amortisation; and deposit insurance contributions in Central Europe. In the first three quarters of the year, other operating result became significantly more negative, easing to EUR –128.8 million from the prior year's EUR –74.5 million. A major contributor was this year's strong increase in amortisation of goodwill (EUR 60.9 million compared to EUR 39.8 million in the corresponding period of the previous year), which resulted mainly from the purchase of additional shares of Česká spořitelna, Tiroler Sparkasse and Sparkassen Versicherung in the course of 2002 and from the acquisition of Riječka banka. Another negative influence was the one-time write-down of EUR 20 million made in 2003 on IT projects as well as provisions not related to lending.

\_\_\_\_\_ Pre-tax profit for the first three quarters of 2003 thus reached EUR 589.2 million, 19.1% more than twelve months earlier (EUR 494.8 million).

\_\_\_\_\_ For 2003 Erste Bank currently expects to pay income tax at an increased rate of 29% (calculated on pre-tax profit). The main reason for the rate increase is that in 2002, changes in tax legislation had a favourable one-off effect on the rate of taxation. As a consequence, taxes on income mounted unusually steeply, rising by 45.1% to EUR 170.6 million in the first nine months of 2003.

\_\_\_\_\_ Minority interests decreased thanks to the purchase of additional shares of Česká spořitelna in the summer of 2002. Net profit after minority interests thus saw a pronounced increase by 57.8%, from EUR 161.7 million a year ago to EUR 255.2 million.

\_\_\_\_\_ Return on equity (ROE) improved significantly in the first three quarters of 2003, to 13.4%.

\_\_\_\_\_ Erste Bank reiterates its guidance for the full year 2003, projecting growth of at least 25% in net profit after minority interests. In the outlook for the fourth quarter, it should be noted that earnings in the fourth quarter of 2002 were exceptionally high thus the final quarter of 2003 is expected to bring a steady trend compared to the previous quarter.

\_\_\_\_\_ The target for 2005 remains a net profit after minority interests of about EUR 500 million, which represents an ROE of at least 15%. The cost-income ratio in 2005 is targeted to fall into the 60% to 62% range.

## Balance sheet developments

\_\_\_\_\_ In the first three quarters, total assets of the Erste Bank Group grew by 7.6%, from EUR 121.2 billion at the end of 2002 to EUR 130.5 billion at 30 September 2003.

\_\_\_\_\_ Loans and advances to customers rose only by a moderate 2.2% over the reporting period, to EUR 65.9 billion. The growth was driven by an expansion in lendings by the Central European subsidiaries (mortgages and consumer credit), while a total amount of approximately EUR 500 million were sold in Austrian (securitisation of car leasing portfolio) and Central European credit risks. Also, the intentional reduction of the Austrian SME loan book to currently 1.7 billion had an impact on the loans to customers.

\_\_\_\_\_ Total risk provisions, despite intra-year additions, fell by 6.8% from 31 December 2002, to EUR 2.8 billion. This is attributable primarily to the sale of EUR 250 million of provisioned legacy loans made by Česká spořitelna.

\_\_\_\_\_ Securities and other financial investments (consisting of trading assets, investments available for sale and financial investments) increased at an unusually high rate of 18.3% during the first three quarters, from EUR 32.8 billion at end-2002 to EUR 38.8 billion. In all constituent categories, the increase resulted mostly from additional bonds and other fixed-income securities.

\_\_\_\_\_ Although savings deposits dipped slightly by 1.2%, amounts owed to customers rose by 4.9% to EUR 64.3 billion. This increase can be traced

in EUR million	Jan-Sep 2003	Jan-Sep 2003	Change in %
Loans and advances to credit institutions	17,851	15,492	15.2
Loans and advances to customers	65,854	64,435	2.2
Risk provisions for loans and advances	(2,781)	(2,983)	(6.8)
Securities and other financial investments	38,791	32,795	18.3
Other assets	10,766	11,483	(6.2)
<b>Total assets</b>	<b>130,481</b>	<b>121,222</b>	<b>7.6</b>
Amounts owed to credit institutions	27,774	26,425	5.1
Amounts owed to customers	64,329	61,308	4.9
Debts evidenced by certificates and sub-ordinated capital	20,658	17,577	17.5
Shareholders' equity	2,601	2,481	4.8
Other liabilities	15,119	13,431	12.6
<b>Total liabilities and shareholders' equity</b>	<b>130,481</b>	<b>121,222</b>	<b>7.6</b>

both to higher institutional deposits from international business of Erste Bank AG, and to the Group subsidiaries in Central Europe.

\_\_\_\_\_ In the first nine months of the year the funding base from own issues continued to grow strongly, taking advantage of the currently favourable market conditions. The sum of debts evidenced by certificates and subordinated liabilities rose by 17.5% compared to 31 December 2002, from EUR 17.6 billion to EUR 20.7 billion.

\_\_\_\_\_ The Erste Bank Group's qualifying capital as defined by the Austrian Banking Act, which since 1 September 2002 includes the savings banks belonging to the cross-guarantee system, amounted to about EUR 7.3 bil-

lion on 30 September 2003. As the statutory minimum capital required at this date was about EUR 5.2 billion, the cover ratio was approximately 141.5%.

\_\_\_\_\_ The core (Tier 1) capital at the end of September was EUR 4.0 billion, resulting in a Tier 1 ratio of 6.5% (compared to 6.3% at the 2002 year-end).

\_\_\_\_\_ At 30 September 2003 the solvency ratio under the Austrian Banking Act was about 11.6% (versus 11.0% at the end of 2002), thus remaining well above the legally required minimum of 8.0%.

# Consolidated Financial Statements for the first three quarters of 2003 (IFRS)

\_\_\_\_\_ The accompanying notes form an integral part of the financial statements.

## Group Balance Sheet of Erste Bank at 30 September 2003

in EUR million	(Notes)	30 Sep 2003	31 Dec 2002	Change in %
<b>Assets</b>				
1. Cash and balances with central banks		2,512	3,181	(21.0)
2. Loans and advances to credit institutions	(1)	17,851	15,492	15.2
3. Loans and advances to customers	(2)	65,854	64,435	2.2
4. Risk provisions for loans and advances	(3)	(2,781)	(2,983)	(6.8)
5. Trading assets	(4)	4,352	3,487	24.8
6. Investments available for sale	(5)	8,713	6,736	29.3
7. Financial investments	(6)	25,726	22,572	14.0
8. Intangible assets		1,560	1,596	(2.3)
9. Tangible assets		1,839	1,866	(1.4)
10. Other assets		4,855	4,840	0.3
<b>Total assets</b>		<b>130,481</b>	<b>121,222</b>	<b>7.6</b>
<b>Liabilities and shareholders' equity</b>				
1. Amounts owed to credit institutions	(7)	27,774	26,425	5.1
2. Amounts owed to customers	(8)	64,329	61,308	4.9
3. Debts evidenced by certificates		16,815	14,191	18.5
4. Provisions	(9)	6,122	5,488	11.6
5. Other liabilities		5,969	5,220	14.3
6. Subordinated capital		3,843	3,386	13.5
7. Minority interests		3,028	2,723	11.2
8. Shareholders' equity		2,601	2,481	4.8
<b>Total liabilities and shareholders' equity</b>		<b>130,481</b>	<b>121,222</b>	<b>7.6</b>

## Group Income Statement of Erste Bank from 1 January to 30 September 2003

in EUR million	(Notes)	Jan-Sep 2003	Jan-Sep 2002	Change in %
1. Interest and similar income		4,057.6	4,356.9	(6.9)
2. Interest paid and similar expenses		(2,122.9)	(2,521.9)	(15.8)
<b>I. Net interest income</b>	(10)	<b>1,934.7</b>	<b>1,835.0</b>	<b>5.4</b>
3. Risk provisions for loans and advances	(11)	(298.6)	(272.2)	9.7
4. Fee and commission income		860.8	809.9	6.3
5. Fee and commission expenses		(133.3)	(114.7)	16.2
<i>Net commission income (Net of 4 and 5)</i>	(12)	727.5	695.2	4.6
6. Net trading result	(13)	170.6	126.5	34.9
7. General administrative expenses	(14)	(1,837.0)	(1,815.8)	1.2
8. Income from insurance business	(15)	20.8	0.6	> 100.0
9. Other operating result	(16)	(128.8)	(74.5)	(72.9)
10. Extraordinary result		0.0	0.0	-
<b>II. Pre-tax profit for the period</b>		<b>589.2</b>	<b>494.8</b>	<b>19.1</b>
11. Taxes on income		(170.6)	(117.6)	45.1
<b>III. Profit for the period</b>		<b>418.6</b>	<b>377.2</b>	<b>11.0</b>
12. Minority interests		(163.4)	(215.5)	(24.2)
<b>IV. Net profit after minority interests</b>		<b>255.2</b>	<b>161.7</b>	<b>57.8</b>

### Earnings per share

\_\_\_\_\_ Earnings per share represents net profit after minority interests divided by the average number of ordinary shares outstanding. Diluted earnings per share represents the maximum possible dilution in the event that the average number of shares covered by subscription or conversion rights granted has increased or may increase.

in EUR	Jan-Sep 2003	Jan-Sep 2002	Change in %
Earnings per share	4.29	3.29	30.4
Diluted earnings per share	4.27	3.29	29.8

## Statement of Changes in Shareholders' Equity

in EUR million	Jan-Sep 2003	Jan-Sep 2002	Change in %
<b>Shareholders' equity at 1 January</b>	<b>2,481</b>	<b>1,704<sup>1)</sup></b>	<b>45.6</b>
Translation differences	(23)	28	> (100.0)
Net profit after minority interests	255	162	57.8
Capital increase	7	618	(98.9)
Dividends	(74)	(63)	17.5
Erste Bank shares	(74)	(33)	> 100.0
Cash flow hedge	34	14	> 100.0
Other changes	(5)	13	> (100.0)
<b>Shareholders' equity at 30 September</b>	<b>2,601</b>	<b>2,443</b>	<b>6.5</b>

1) For ease of comparison, the presentation of the effect from the holdings of Erste Bank shares was adapted from that used in the report for the third quarter of 2002. The total effect of EUR -208 million reported in the prior year is now divided into the effect from the holdings of such own shares at 1 January (an effect of EUR -175 million, which is contained in the opening balance) and the effect of the revaluation and change in quantity of these shares during the reporting period (this effect amounts to EUR -33 million).

## Cash Flow Statement

in EUR million	Jan-Sep 2003	Jan-Sep 2002	Change in %
<b>Cash and cash equivalents at the beginning of period</b>	<b>3,181</b>	<b>2,573</b>	<b>23.6</b>
Cash flows from operating activities	2,256	2,317	(2.6)
Cash flows from investing activities	(3,235)	(2,767)	16.9
Cash flows from financing activities	315	1,008	(68.8)
Effect of changes in exchange rates	(5)	30	> (100.0)
<b>Cash and cash equivalents at the end of period</b>	<b>2,512</b>	<b>3,161</b>	<b>(20.5)</b>

# Notes to the Consolidated Financial Statements of the Erste Bank Group for the third quarter of 2003

\_\_\_\_\_ The consolidated financial statements of the Erste Bank Group are prepared in accordance with International Financial Reporting Standards (IFRS – formerly IAS) as interpreted by the International Financial Reporting Interpretations Committee (IFRIC – formerly SIC). The current report for the first nine months of 2003 complies with IAS 34 (Interim Financial Reporting). No changes were made to accounting policies or measurement methods for this reporting period.

## Major business events during the reporting period

\_\_\_\_\_ With effect from 31 August, Česká spořitelna sold another tranche of its portfolio of legacy loans that had been advanced before Erste Bank acquired the bank. The assets sold totalled CZK 7,962 million (about EUR 249 million) and were covered by CZK 7,920 million (approximately EUR 248 million) of risk provisions for loans and advances. The sale generated proceeds of CZK 775 million.

\_\_\_\_\_ Erste & Steiermärkische Banka and Riječka banka the two Croatian subsidiaries, were merged effective 1 August. The resulting new entity, Erste & Steiermärkische Bank (Erste Bank Croatia), is the third largest bank in Croatia, with total assets of about EUR 2.3 billion at 30 September 2003. Erste Bank der oesterreichischen Sparkassen AG (Erste Bank) owns 77.3% of the merged institution; Steiermärkische Sparkasse und Bank AG holds a 15.1% equity interest.

\_\_\_\_\_ On 22 September 2003 Erste Bank acquired a further 2.82% interest in Slovak subsidiary Slovenská sporiteľňa and thus now owns 70.01% of the capital. The purchase price was SKK 584.6 million (approximately EUR 14.1 million).

\_\_\_\_\_ Pojišťovna ČS, the Czech insurance company owned by Česká spořitelna and by s Versicherung AG, decided in 2003 to divest its non-life insurance business to Kooperativa. The agreed selling price of CZK 4.1 billion (about EUR 128 million) may change by 10% in either direction depending on the 2003 financial statements of Pojišťovna ČS. The purchase agreement was signed at the beginning of November 2003 and the sale is to close (on the receipt of the required approvals) in the first quarter of 2004. Details of the transaction will be released as part of the Erste Bank Group's year-end financial reporting, once the final business results for the full year 2003 are available for the unit in question.

## Events after the balance sheet date

\_\_\_\_\_ On 20 October 2003 Erste Bank signed the purchase contract for the acquisition of 99.97% of the shares of Hungary's Postabank és Takarékpénztár Rt. Clearance for the transaction through the privatisation process was received on 25 September 2003. The purchase price is HUF 101.3 billion (about EUR 394.1 million) and represents 2.7 times the reported and audited book value of Postabank at the end of 2002 on the basis of IFRS. Postabank will be included in Erste Bank's consolidated financial statements from the date of the share transfer, probably in December 2003. Postabank is a retail bank with total assets of approximately EUR 1.7 billion.

\_\_\_\_\_ Continuing the established strategy of streamlining the branch network within the Austrian savings bank group, the already announced transfer of Erste Bank branches in the Vorarlberg region to local savings banks is scheduled for the fourth quarter of 2003. The transactions will involve total loans and advances to customers of about EUR 350 million and customer deposits of some EUR 183 million. The Erste Bank Group is being paid mainly in cash and to a lesser extent in equity.

\_\_\_\_\_ In 1998 and 1999 Erste Bank and its most significant Austrian subsidiaries transferred existing pension provisions to pension funds in order to adopt a defined-contribution pension plan throughout Austria, in line with international practice. Based on an amendment to pension fund legislation in August 2003, and in order to avoid possible negative financial consequences for Erste Bank and Austrian subsidiaries, it has been decided to give employees the opportunity to switch to a more conservative scheme for risk-sharing and collective investment, with one-time additional individual contributions offered by the Erste Bank Group. As employees have to opt for this alternative until the end of November, the potential financial effect on the Erste Bank Group cannot yet be determined with any precision.

## Information on the Group Balance Sheet

### 1) Loans and advances to credit institutions

in EUR million	30 Sep 2003	31 Dec 2002	Change in %
Loans and advances to domestic credit institutions	2,582	3,462	(25.4)
Loans and advances to foreign credit institutions	15,269	12,030	26.9
<b>Total</b>	<b>17,851</b>	<b>15,492</b>	<b>15.2</b>

### 2) Loans and advances to customers

in EUR million	30 Sep 2003	31 Dec 2002	Change in %
Loans and advances to domestic customers	45,926	46,413	(1.0)
<i>Public sector</i>	3,118	3,116	0.1
<i>Commercial customers</i>	26,171	26,990	(3.0)
<i>Private customers</i>	16,517	16,157	2.2
<i>Other</i>	120	150	(20.0)
Loans and advances to foreign customers	19,928	18,022	10.6
<i>Public sector</i>	2,995	3,090	(3.1)
<i>Commercial customers</i>	12,880	11,402	13.0
<i>Private customers</i>	3,931	3,314	18.6
<i>Other</i>	122	216	(43.5)
<b>Total</b>	<b>65,854</b>	<b>64,435</b>	<b>2.2</b>

### 3) Risk provisions

in EUR million	Jan-Sep 2003	Jan-Sep 2002	Change in %
<b>Risk provisions for loans and advances</b>			
<b>At 1 January</b>	<b>2,983</b>	<b>1,905</b>	<b>56.6</b>
Change in scope of consolidation (2002: cross-guarantee system)		1,236	(100.0)
Use	(463)	(301)	53.8
Net allocation of risk provisions	277	248	11.5
Changes in exchange rates	(16)	25	> 100.0
<b>At 30 September</b>	<b>2,781</b>	<b>3,113</b>	<b>(10.7)</b>
Risk provisions for off-balance credit risk and for other risks (included in provisions)	77	103	(25.2)
<b>Risk provisions at 30 September</b>	<b>2,858</b>	<b>3,216</b>	<b>(11.1)</b>



#### 4) Trading assets

in EUR million	30 Sep 2003	31 Dec 2002	Change in %
Bonds and other fixed-income securities	3,058	2,156	41.8
Shares and other variable-yield securities	385	450	(14.4)
Positive fair value of derivative financial instruments	909	881	3.2
<b>Total</b>	<b>4,352</b>	<b>3,487</b>	<b>24.8</b>

#### 5) Investments available for sale

in EUR million	30 Sep 2003	31 Dec 2002	Change in %
Bonds and other fixed-income securities	5,908	4,020	47.0
Shares and other variable-yield securities	2,805	2,716	3.3
<b>Total</b>	<b>8,713</b>	<b>6,736</b>	<b>29.3</b>

#### 6) Financial investments

in EUR million	30 Sep 2003	31 Dec 2002	Change in %
Bonds and other fixed-income securities (held to maturity)	18,293	15,750	16.1
Variable-yield securities	889	956	(7.0)
Investments	514	463	11.0
Investments of insurance companies	4,723	4,294	10.0
Other financial investments (particularly carrying amounts of assets subject to operating leases and rental agreements)	1,307	1,109	17.9
<b>Total</b>	<b>25,726</b>	<b>22,572</b>	<b>14.0</b>

#### 7) Amounts owed to credit institutions

in EUR million	30 Sep 2003	31 Dec 2002	Change in %
Amounts owed to domestic credit institutions	8,658	6,860	26.2
Amounts owed to foreign credit institutions	19,116	19,565	(2.3)
<b>Total</b>	<b>27,774</b>	<b>26,425</b>	<b>5.1</b>

## 8) Amounts owed to customers

in EUR million	30 Sep 2003	31 Dec 2002	Change in %
Savings deposits	36,455	36,880	(1.2)
Other	27,874	24,428	14.1
<b>Total</b>	<b>64,329</b>	<b>61,308</b>	<b>4.9</b>

## 9) Provisions

in EUR million	30 Sep 2003	31 Dec 2002	Change in %
Long-term employee provisions	1,097	1,117	(1.8)
Insurance reserves	4,662	4,072	14.5
Other	363	299	21.4
<b>Total</b>	<b>6,122</b>	<b>5,488</b>	<b>11.6</b>

## Information on the Group Income Statement

### 10) Net interest income

in EUR million	Jan-Sep 2003	Jan-Sep 2002	Change in %
Interest income from			
Lending and money market transactions with credit institutions	650.8	835.1	(22.1)
Lending and money market transactions with customers	2,225.4	2,380.9	(6.5)
Fixed-income securities	912.4	915.8	(0.4)
Other interest and similar income	39.5	32.8	20.4
Current income from			
Shares and other variable-yield securities	117.5	115.4	1.8
Investments	62.1	37.1	67.4
Property used by outside parties	49.9	39.8	25.4
<b>Total interest and similar income</b>	<b>4,057.6</b>	<b>4,356.9</b>	<b>(6.9)</b>
Interest expenses for			
Amounts owed to credit institutions	(555.9)	(689.8)	(19.4)
Amounts owed to customers	(941.9)	(1,183.5)	(20.4)
Debts evidenced by certificates <sup>1)</sup>	(456.7)	(494.0)	(7.6)
Subordinated capital <sup>1)</sup>	(159.3)	(144.5)	10.2
Other	(9.1)	(10.1)	(9.9)
<b>Total interest and similar expenses</b>	<b>(2,122.9)</b>	<b>(2,521.9)</b>	<b>(15.8)</b>
<b>Net interest income</b>	<b>1,934.7</b>	<b>1,835.0</b>	<b>5.4</b>

1) As a result of an improved classification, the allocation of net interest income for 2002 was adjusted.

### 11) Risk provisions for loans and advances

in EUR million	Jan-Sep 2003	Jan-Sep 2002	Change in %
Net allocation to risk provisions in lending business	(276.5)	(247.7)	11.6
Direct write-off for loans and advances less amounts recovered on loans and advances written off	(22.1)	(24.5)	(9.8)
<b>Total</b>	<b>(298.6)</b>	<b>(272.2)</b>	<b>9.7</b>

### 12) Net commission income

in EUR million	Jan-Sep 2003	Jan-Sep 2002	Change in %
Lending business <sup>1)</sup>	116.8	115.9	0.8
Payment transfers <sup>1)</sup>	282.1	239.6	17.7
Securities transactions	176.8	169.9	4.1
<i>Investment fund transactions</i>	78.1	72.3	8.0
<i>Custodial fees</i>	29.2	29.4	(0.7)
<i>Brokerage</i>	69.5	68.2	1.9
Insurance business	37.9	36.3	4.4
Building society agency operations	19.9	16.9	17.8
Foreign exchange operations	38.6	36.1	6.9
Other <sup>1)</sup>	55.4	80.5	(31.2)
<b>Total</b>	<b>727.5</b>	<b>695.2</b>	<b>4.6</b>

1) As a result of an improved classification, the allocation of net commission income for 2002 was adjusted.

### 13) Net trading result

in EUR million	Jan-Sep 2003	Jan-Sep 2002	Change in %
Securities and derivatives trading	85.0	57.8	47.1
Foreign exchange	85.6	68.7	24.6
<b>Total</b>	<b>170.6</b>	<b>126.5</b>	<b>34.9</b>

### 14) General administrative expenses

in EUR million	Jan-Sep 2003	Jan-Sep 2002	Change in %
Personnel expenses	(1,041.1)	(1,006.6)	3.4
Other administrative expenses	(538.8)	(582.2)	(7.5)
Depreciation and amortisation of fixed assets	(257.1)	(227.0)	13.3
<b>Total</b>	<b>(1,837.0)</b>	<b>(1,815.8)</b>	<b>1.2</b>

### 15) Income from insurance business

in EUR million	Jan-Sep 2003	Jan-Sep 2002	Change in %
Earned premiums	667.9	689.6	(3.1)
Investment income on underwriting business	181.6	118.1	53.8
Claims incurred	(172.6)	(238.2)	(27.5)
Change in underwriting provisions	(525.9)	(422.7)	24.4
Expenses for profit-linked premium reimbursements	(56.0)	(36.1)	55.1
Operating expenses	(77.2)	(73.3)	5.3
Other underwriting result	(6.7)	(40.4)	(83.4)
<b>Net underwriting income</b>	<b>11.1</b>	<b>(3.0)</b>	<b>&gt; 100.0</b>
Net investment income	191.3	121.8	57.1
Carried to underwriting account	(181.6)	(118.2)	53.6
<b>Total</b>	<b>20.8</b>	<b>0.6</b>	<b>&gt; 100.0</b>

### 16) Other operating result

in EUR million	Jan-Sep 2003	Jan-Sep 2002	Change in %
Other operating income	69.5	80.8	(14.0)
Other operating expenses	(215.7)	(178.4)	20.9
<i>Amortisation of goodwill</i>	(60.9)	(39.8)	53.0
<i>Other operating expenses</i>	(154.8)	(138.6)	11.7
Income from securities held as investments available for sale	16.0	2.8	> 100.0
Income from investments and related companies	1.4	20.3	(93.1)
<b>Total</b>	<b>(128.8)</b>	<b>(74.5)</b>	<b>(72.9)</b>

## Other information

### 17) Contingent liabilities and other obligations

in EUR million	30 Sep 2003	31 Dec 2002	Change in %
Contingent liabilities	6,605	5,918	11.6
<i>Contingent liabilities</i>	6,511	5,809	12.1
<i>Other</i>	94	109	(13.8)
Other obligations	16,339	14,972	9.1
<i>Undrawn credit and loan commitments</i>	14,821	13,549	9.4
<i>Amounts owed resulting from repurchase transactions</i>	1,043	1,063	(1.9)
<i>Other</i>	475	360	31.9

### 18) Number of employees (weighted by extent of employment)

	30 Sep 2003	31 Dec 2002	Change in %
<b>Employed by Group</b>	<b>36,422</b>	<b>36,923</b>	<b>(1.4)</b>
Domestic	15,190	15,654	(3.0)
Abroad	21,232	21,269	(0.2)
thereof Česká spořitelna Group	12,736	12,994	(2.0)
thereof Slovenská sporiteľňa	5,277	5,248	0.6

\_\_\_\_ In addition to the above number of employees, 65 persons were employed in non-bank enterprises of the Group (hotel and leisure sector) at 30 September 2003.

## 19) Segment reporting

Compared with the first three quarters of the preceding year, the equity allocated to the segments under IFRS was up by over 40% mainly due to Erste Bank's successful capital increase in July 2002. For this reason and due to a change of allocation in the savings bank segment in the second quarter, the ROE figures are not directly comparable with last year's figures.

## Austria

On balance, the Austria segment achieved an improvement of more than 50% in net profit after minority interests compared to the corresponding year-earlier period. This was accomplished despite increases in funding costs and goodwill amortisation. The good result was driven chiefly by a significant rise in operating revenues and almost unchanged operating expenses due to successful cost reduction measures.

### Savings Banks

In the Savings Banks sub-segment, net commission income rose strongly in the first three quarters by 17.1%, to EUR 229.7 million. This increase was led by three components: payment transfers, securities and lending. The favourable market conditions led to a strong improvement (if

at a low absolute level) of 31.2% in the net trading result to EUR 21.1 million. Net interest income, however, was slightly reduced by 2.5% to EUR 625.9 million by the falling market interest rates (not least as a result of the valuation of Banking Book swaps at market prices that is required under IFRS).

General administrative expenses, at EUR 609.4 million, were almost unchanged from one year earlier, whereas risk provisions were up slightly to EUR 131.8 million. As the last quarter of 2002 saw a strong, business-cycle-driven increase in risk provisions that is not expected to recur in 2003, they are expected not to exceed by much last year's level. A strong influence on other operating result was exerted by a higher valuation of the available-for-sale portfolio, notably in the first half of 2003. In spite of a 6-percentage-point increase in the tax rate, net profit after minority interests improved markedly.

### Retail and Real Estate

The Retail and Real Estate sub-segment comprises the Austrian retail and small and medium-sized corporate customer (SME) business, the savings banks majority-owned by Erste Bank AG, and those subsidiaries which are engaged predominantly in retail distribution (building society, Sparinvest and s Autoleasing).

The sevenfold increase in net profit after minority interests to EUR 14.9 million and the tripling of pre-tax profit to EUR 33.8 million were

in EUR million	Savings Banks Q1-3/2003	Savings Banks Q1-3/2002	Retail and Real Estate Q1-3/2003	Retail and Real Estate Q1-3/2002
Net interest income	625.9	641.7	394.8	395.9
Risk provisions for loans and advances	(131.8)	(127.1)	(97.9)	(91.3)
Net commission income	229.7	196.1	200.4	192.5
Net trading result	21.2	16.2	13.5	11.2
General administrative expenses	(609.4)	(595.5)	(493.1)	(493.8)
Income from insurance business	0.0	0.0	15.5	2.1
Other operating result	5.1	(4.9)	0.7	(7.3)
<b>Pre-tax profit for the period</b>	<b>140.7</b>	<b>126.5</b>	<b>33.8</b>	<b>9.3</b>
Taxes on income	(39.8)	(28.9)	(12.2)	(4.9)
Minority interests	(96.1)	(96.9)	(6.7)	(2.6)
<b>Net profit after minority interests</b>	<b>4.7</b>	<b>0.7</b>	<b>14.9</b>	<b>1.8</b>
Average risk-weighted assets	22,134.2	21,558.8	12,158.2	11,674.9
Average attributed equity	199.2	0.0	741.7	571.2
<b>Cost-income ratio (in %)</b>	<b>69.5%</b>	<b>69.7%</b>	<b>79.0%</b>	<b>82.1%</b>
<b>ROE based on net profit (in %)</b>	<b>3.2%</b>	<b>n.a.</b>	<b>2.7%</b>	<b>0.4%</b>

driven by a benign trend in the insurance business (up at EUR 15.5 million) and an improvement in other operating result through an increase in the value of available-for-sale securities in the majority-owned savings banks.

\_\_\_\_\_ Risk provisions for loans and advances were up 7.3% compared to the year-ago period, due in large part to the additional provisioning required by the majority-owned savings banks. Despite higher funding costs for the acquisition of further shares of s Versicherung and Tiroler Sparkasse and the environment of declining interest rates, net interest income (EUR 394.8 million) was held steady in this segment.

\_\_\_\_\_ Net commission income increased by 4% to EUR 200.4 million; general administrative expenses remained virtually constant (down 0.1% to EUR 493.1 million).

### Large Corporates

\_\_\_\_\_ The Large Corporates sub-segment encompasses the corporate key accounts serviced by Erste Bank AG and also includes Immorent, a leasing subsidiary. While net interest income increased by 2.7% to EUR 113.9 million, net commission income receded by 32.4% year-on-year to EUR 34.5 million. An important reason for this drop was Immorent's exceptionally high net commission income in 2002, which could not be duplicated in the first three quarters of this year. Risk provisions increased sharply by nearly 20% to EUR 40.1 million. The rate of increase will diminish in the fourth quarter, as risk provisions had risen in the fourth quarter of

2002. A decrease of 4.5% in general administrative expenses to EUR 60.1 million was achieved by strict cost management.

### Trading and Investment Banking

\_\_\_\_\_ The Trading and Investment Banking sub-segment includes the respective business units in Vienna and the treasury activities of the New York and Hong Kong branches. The rapid growth in net profit after minority interests from EUR 27.6 million to EUR 68.5 million reflected effective balance sheet management (especially in the third quarter) coupled with optimum management of the Banking Book, a jump of more than 80% in net interest income (from EUR 47.3 million to EUR 85.6 million) and an improvement of 39.4% in the net trading result (from EUR 56.4 million to EUR 78.6 million, with the low prior-year level caused by the then-adverse market conditions). The sharp rise in net commission income (EUR 29.0 million, up from EUR 13.2 million) – derived in part from sales of structured products – also contributed to the good earnings result.

Large Corporates Q1-3/2003	Large Corporates Q1-3/2002	Trading and Investment Banking Q1-3/2003	Trading and Investment Banking Q1-3/2002	Austria Total Q1-3/2003	Austria Total Q1-3/2002
113.9	110.9	85.6	47.3	1,220.3	1,195.9
(40.1)	(33.7)	0.0	0.0	(269.8)	(252.1)
34.5	51.1	29.0	13.2	493.6	452.9
1.2	2.1	78.6	56.4	114.4	85.9
(60.1)	(62.9)	(76.8)	(75.6)	(1,239.4)	(1,227.9)
0.0	0.0	0.0	0.0	15.5	2.1
(0.4)	0.4	(18.4)	(5.8)	(13.1)	(17.7)
<b>49.0</b>	<b>67.9</b>	<b>98.0</b>	<b>35.5</b>	<b>321.5</b>	<b>239.1</b>
(14.2)	(15.3)	(29.9)	(9.0)	(96.2)	(58.0)
(7.2)	(6.8)	0.3	1.1	(109.6)	(105.3)
<b>27.6</b>	<b>45.8</b>	<b>68.5</b>	<b>27.6</b>	<b>115.7</b>	<b>75.8</b>
6,748.0	6,304.1	3,721.3	4,045.7	44,761.7	43,583.5
415.0	308.4	219.6	197.9	1,575.5	1,077.5
<b>40.2%</b>	<b>38.3%</b>	<b>39.7%</b>	<b>64.7%</b>	<b>67.2%</b>	<b>70.7%</b>
<b>8.9%</b>	<b>19.8%</b>	<b>41.6%</b>	<b>18.6%</b>	<b>9.8%</b>	<b>9.4%</b>

## Central Europe

\_\_\_\_\_ The Central Europe segment delivered significant improvements in all components of operating income (except for net trading results). As personnel expenses saw an unavoidable increase due to necessary salary adjustments to market levels, and as depreciation on fixed assets rose considerably amid higher capital expenditure, general administrative expenses also mounted visibly. However, despite required one-time write-downs and other provisions, net profit after minority interests climbed by more than 16% in the extended home market as a whole.

### Česká spořitelna

\_\_\_\_\_ A combination of higher funding costs (for the purchase of additional shares of Česká spořitelna by Erste Bank in mid-2002), a weakening Czech crown and a steep decline in market interest rates caused Česká spořitelna's net interest income to ease from EUR 361.2 million to EUR 341.7 million. However, this effect was largely balanced by an increase of 10.8% in net commission income. In the insurance business, the prior-year figures incorporate the costs of claims for the widespread flooding damage. General administrative expenses (including depreciation) rose

only slightly, to EUR 355.6 million. Specifically, other administrative expenses were brought down by 12% while the adjustment of salaries to market levels led to a 9% increase in personnel expenses. Depreciation rose by a budgeted 24%. In the prior-year period, necessary releases of risk provisions that had been formed at Česká spořitelna's first consolidation in the Group financial statements had a beneficial effect on the net amount of new risk provisions. This effect was absent in 2003 and the item thus followed an unfavourable trend compared to the year before. Increased goodwill amortisation and extraordinary write-downs for software, coupled with a net trading result below the very good prior-year level, led to a dip from EUR 88.3 million to EUR 85.3 million in Česká spořitelna's net profit after minority interests.

### Slovenská sporiteľňa

\_\_\_\_\_ At the Slovak subsidiary, both the completed transformation and intensified marketing are yielding rewarding results: Net interest income improved by 58.1% to EUR 179.3 million, thanks in part to an exceptionally high gain of EUR 28 million from the at-equity valuation of the Slovak building society (PSS). Net commission income swelled by nearly 20% to EUR 36.4 million. This was also expressed in an 85.7% improvement in net

in EUR million	Česká spořitelna Q1-3/2003	Česká spořitelna Q1-3/2002	Slovenská sporiteľňa Q1-3/2003	Slovenská sporiteľňa Q1-3/2002
Net interest income	341.7	361.2	179.3	113.4
Risk provisions for loans and advances	6.7	18.6	0.3	5.4
Net commission income	180.0	162.5	36.4	30.8
Net trading result	28.5	33.4	8.1	7.4
General administrative expenses	(355.6)	(345.5)	(112.9)	(96.9)
Income from insurance business	5.3	(1.5)	0.0	0.0
Other operating result	(48.8)	(16.0)	(66.4)	(23.2)
<b>Pre-tax profit for the period</b>	<b>157.9</b>	<b>212.7</b>	<b>44.9</b>	<b>36.9</b>
Taxes on income	(60.4)	(48.6)	(5.6)	(12.3)
Minority interests	(12.2)	(75.8)	(16.8)	(12.5)
<b>Net profit after minority interests</b>	<b>85.3</b>	<b>88.3</b>	<b>22.5</b>	<b>12.1</b>
Average risk-weighted assets	6,291.7	6,197.3	1,353.7	1,012.0
Average attributed equity	382.8	303.2	82.4	49.5
<b>Cost-income ratio (in %)</b>	<b>64.0%</b>	<b>62.2%</b>	<b>50.4%</b>	<b>63.9%</b>
<b>ROE based on net profit (in %)</b>	<b>29.7%</b>	<b>38.8%</b>	<b>36.5%</b>	<b>32.7%</b>



profit after minority interests from EUR 12.1 million to EUR 22.5 million. The contraction in other operating result was caused mostly by provisions for non-credit risks and by exceptional write-downs on software. The 16.5% rise in general administrative expenses reflects the investment in the modernisation of the distribution system. Aside from higher personnel costs (up 10% amid the needed alignment with market salaries) and other administrative expenses (up 9.1%), the main reason for this mounting cost was an increase of 51% in depreciation as a result of the recent growth in capital expenditure. Nevertheless, Slovenská sporiteľňa was able to lower its cost-income ratio from 63.9% to 50.4%.

#### Erste Bank Hungary

Erste Bank Hungary too is profiting from its marketing campaigns: Net interest income was pushed up by 41% from EUR 30.4 million to EUR 42.9 million, mainly because of a large increase in business volume (loans and advances to customers were up 39%). An especially compelling advance of 83% was realised in net commission income, which expanded from EUR 11.2 million to EUR 20.5 million. This was accomplished through volume-driven higher revenues from payment transfers and lending. The increase in general administrative expenses is the consequence

primarily of the branch network expansion and the accompanying rise in staff costs. The cost-income ratio was successfully cut from 82.2% to 69.6%; net profit after minority interests grew from EUR 1.5 million to EUR 9.6 million, generating a return on equity of 25.5%.

#### Erste Bank Croatia

The acquisition of Riječka banka in the second quarter of 2002 was the foremost reason for the growth in net profit after minority interests in the Croatia sub-segment. The keynote event of the current financial year is the merger of Riječka banka with Erste & Steiermärkische Banka in the third quarter. Notwithstanding the budgeted strong increase in general administrative expenses, the cost-income ratio was held at 62.6% and return on equity eased only slightly from the prior year, to 30.5%.

Erste Bank Hungary Q1-3/2003	Erste Bank Hungary Q1-3/2002	Erste Bank Croatia <sup>1)</sup> Q1-3/2003	Erste Bank Croatia <sup>1)</sup> Q1-3/2002	Central Europe Total Q1-3/2003	Central Europe Total Q1-3/2002
42.9	30.4	54.5	40.4	618.5	545.4
(8.3)	(5.5)	(2.8)	(4.1)	(4.1)	14.5
20.5	11.2	8.9	6.0	245.9	210.5
9.6	4.9	5.8	9.8	52.1	55.4
(50.9)	(38.2)	(43.3)	(29.3)	(562.6)	(509.9)
0.0	0.0	0.0	0.0	5.3	(1.5)
(2.7)	(1.3)	(0.7)	0.0	(118.6)	(40.5)
<b>11.2</b>	<b>1.5</b>	<b>22.4</b>	<b>22.8</b>	<b>236.4</b>	<b>273.9</b>
(1.6)	(0.3)	1.5	(1.9)	(66.1)	(63.2)
0.0	0.3	(4.6)	(4.9)	(33.5)	(92.9)
<b>9.6</b>	<b>1.5</b>	<b>19.3</b>	<b>16.0</b>	<b>136.7</b>	<b>117.8</b>
828.6	649.1	1,386.8	1,307.4	9,860.8	9,165.7
50.5	31.7	84.4	64.0	600.1	448.5
<b>69.6%</b>	<b>82.2%</b>	<b>62.6%</b>	<b>52.1%</b>	<b>61.0%</b>	<b>63.0%</b>
<b>25.5%</b>	<b>6.2%</b>	<b>30.5%</b>	<b>33.3%</b>	<b>30.4%</b>	<b>35.0%</b>

1) Pro forma sum of Erste & Steiermärkische Banka and Riječka banka (8 months)

## International Business

\_\_\_\_\_ In addition to the International Business unit in Vienna, the International business segment also covers the commercial business of the branches in London, New York and Hong Kong.

\_\_\_\_\_ Even on intentionally decreased business volumes, net interest income improved. In combination with a significant reduction in general administrative expenses (EUR 25.7 million compared to the year-earlier figure of EUR 29.7 million), this meant growth of 39.5% in net profit after minority interests, to EUR 55.7 million.

## Corporate Center

\_\_\_\_\_ Items and activities accounted for in the Corporate Centre segment include, among others, the costs of overall Group management, all units not directly assigned to individual segments (for instance non-banking subsidiaries, Spardat, Internet arm "ecetra" and others) and general consolidating items.

in EUR million	International Business Q1-3/2003	International Business Q1-3/2002	Corporate Centre Q1-3/2003	Corporate Centre Q1-3/2002	Erste Bank Group Total Q1-3/2003	Erste Bank Group Total Q1-3/2002
Net interest income	108.5	103.2	(12.5)	(9.5)	1,934.7	1,835.0
Risk provisions for loans and advances	(24.8)	(34.6)	0.1	0.0	(298.6)	(272.2)
Net commission income	16.1	12.3	(28.1)	19.5	727.5	695.2
Net trading result	0.0	0.2	4.1	(15.0)	170.6	126.5
General administrative expenses	(25.7)	(29.7)	(9.3)	(48.4)	(1,837.0)	(1,815.8)
Income from insurance business	0.0	0.0	0.0	0.0	20.8	0.6
Other operating result	(1.8)	1.3	4.8	(17.5)	(128.8)	(74.5)
<b>Pre-tax profit for the period</b>	<b>72.3</b>	<b>52.7</b>	<b>(40.9)</b>	<b>(70.8)</b>	<b>589.2</b>	<b>494.8</b>
Taxes on income	(16.6)	(12.8)	8.3	16.4	(170.6)	(117.6)
Minority interests	0.0	0.0	(20.4)	(17.3)	(163.4)	(215.5)
<b>Net profit after minority interests</b>	<b>55.7</b>	<b>39.9</b>	<b>(53.0)</b>	<b>(71.8)</b>	<b>255.2</b>	<b>161.7</b>
Average risk-weighted assets	5,768.9	6,180.0	248.9	977.3	60,640.3	59,906.6
Average attributed equity	351.2	302.4	17.1	47.8	2,543.9	1,876.2
<b>Cost-income ratio (in %)</b>	<b>20.6%</b>	<b>25.7%</b>	<b>n.a.</b>	<b>n.a.</b>	<b>64.4%</b>	<b>68.3%</b>
<b>ROE based on net profit (in %)</b>	<b>21.1%</b>	<b>17.6%</b>	<b>n.a.</b>	<b>n.a.</b>	<b>13.4%</b>	<b>11.5%</b>

## Earnings performance at Erste Bank Group: Quarterly results

in EUR million	Q1/2002	Q2/2002	Q3/2002	Q4/2002	Q1/2003	Q2/2003	Q3/2003
Net interest income	584.8	634.4	615.8	628.0	617.6	672.5	644.6
Risk provisions for loans and advances	(89.1)	(94.4)	(88.7)	(134.2)	(97.2)	(108.7)	(92.7)
Net commission income	244.0	225.5	225.7	249.1	228.9	253.0	245.6
Net trading result	50.9	38.7	36.9	40.9	60.1	54.5	56.0
General administrative expenses	(570.0)	(633.2)	(612.6)	(616.1)	(605.1)	(617.8)	(614.1)
Income from insurance business	8.1	(3.4)	(4.1)	7.8	4.4	8.8	7.6
Other operating result	(55.8)	1.5	(20.2)	(5.7)	(22.6)	(38.1)	(68.1)
<b>Pre-tax profit for the period</b>	<b>172.9</b>	<b>169.1</b>	<b>152.8</b>	<b>169.8</b>	<b>186.1</b>	<b>224.2</b>	<b>178.9</b>
Taxes on income	(46.0)	(32.3)	(39.3)	(33.8)	(54.4)	(64.7)	(51.5)
<b>Profit for the period</b>	<b>126.9</b>	<b>136.8</b>	<b>113.5</b>	<b>136.0</b>	<b>131.7</b>	<b>159.5</b>	<b>127.4</b>
Minority interests	(61.0)	(91.8)	(62.7)	(42.5)	(55.9)	(70.2)	(37.3)
<b>Net profit after minority interests</b>	<b>65.9</b>	<b>45.0</b>	<b>50.8</b>	<b>93.5</b>	<b>75.8</b>	<b>89.3</b>	<b>90.1</b>

## Development in Erste Bank Group's qualifying capital at 30 September 2003

in EUR million	30 Sep 2003	31 Dec 2002	30 Sep 2002
Subscribed capital (less shares held in own portfolio)	435	435	435
Reserves and minority interests	3,973	3,839	3,596
Intangible assets	(450)	(474)	(399)
<b>Core capital (Tier 1)</b>	<b>3,958</b>	<b>3,800</b>	<b>3,632</b>
Eligible subordinated liabilities	2,919	2,764	2,762
Revaluation reserve	198	185	179
<b>Qualifying supplementary capital (Tier 2)</b>	<b>3,117</b>	<b>2,949</b>	<b>2,941</b>
<b>Short-term subordinated capital (Tier 3)</b>	<b>339</b>	<b>325</b>	<b>335</b>
<b>Total qualifying capital</b>	<b>7,414</b>	<b>7,074</b>	<b>6,908</b>
Deductions acc. to Sections 23 (13) and 29 (1-2) Austrian Banking Act	(71)	(91)	(123)
<b>Total eligible qualifying capital</b>	<b>7,343</b>	<b>6,983</b>	<b>6,785</b>
Capital requirement	5,191	5,146	5,102
Surplus capital	2,152	1,837	1,683
Cover ratio (in %)	141.5%	135.7%	133.0%
<b>Tier 1 ratio (in %)</b>	<b>6.5%</b>	<b>6.3%</b>	<b>6.1%</b>
<b>Solvency ratio (in %)</b>	<b>11.6%</b>	<b>11.0%</b>	<b>10.8%</b>
Risk-weighted basis acc. to Section 22 Austrian Banking Act	60,640	60,257	59,574
Thereof 8% minimum capital requirement	4,851	4,821	4,766
Capital requirement for open foreign exchange position acc. to Section 26 Austrian Banking Act	20	9	11
Capital requirement for the trading book acc. to Section 22b (1) Austrian Banking Act	320	316	325
<b>Total capital requirement</b>	<b>5,191</b>	<b>5,146</b>	<b>5,102</b>



## Financial calendar<sup>1)</sup>

17 March 2004	Release of preliminary results for 2003
14 April 2004	Release of the 2003 Annual Report
4 May 2004	Annual General Meeting
7 May 2004	Ex-dividend date and dividend payment date
7 May 2004	Release of results for the first quarter of 2004
17 August 2004	Release of results for the first half of 2004
12 November 2004	Release of results for the first three quarters of 2004

1) Preliminary date

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## Ticker symbols

Reuters ERST.VI  
Bloomberg EBS AV  
Datastream O:ERS  
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