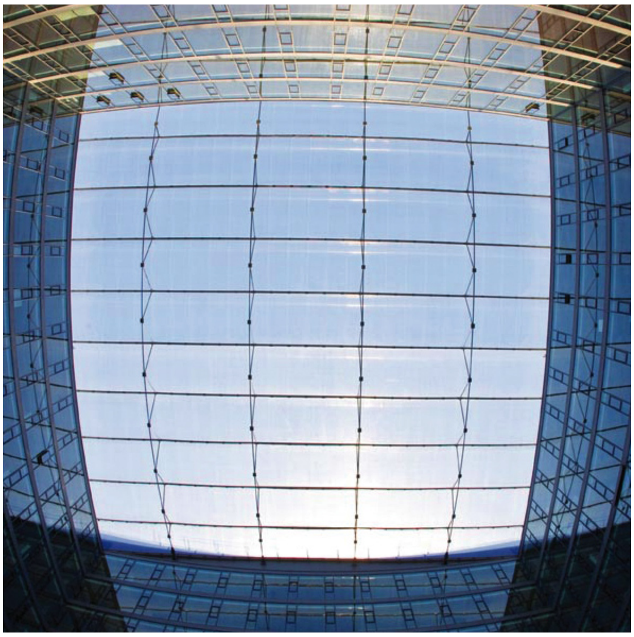
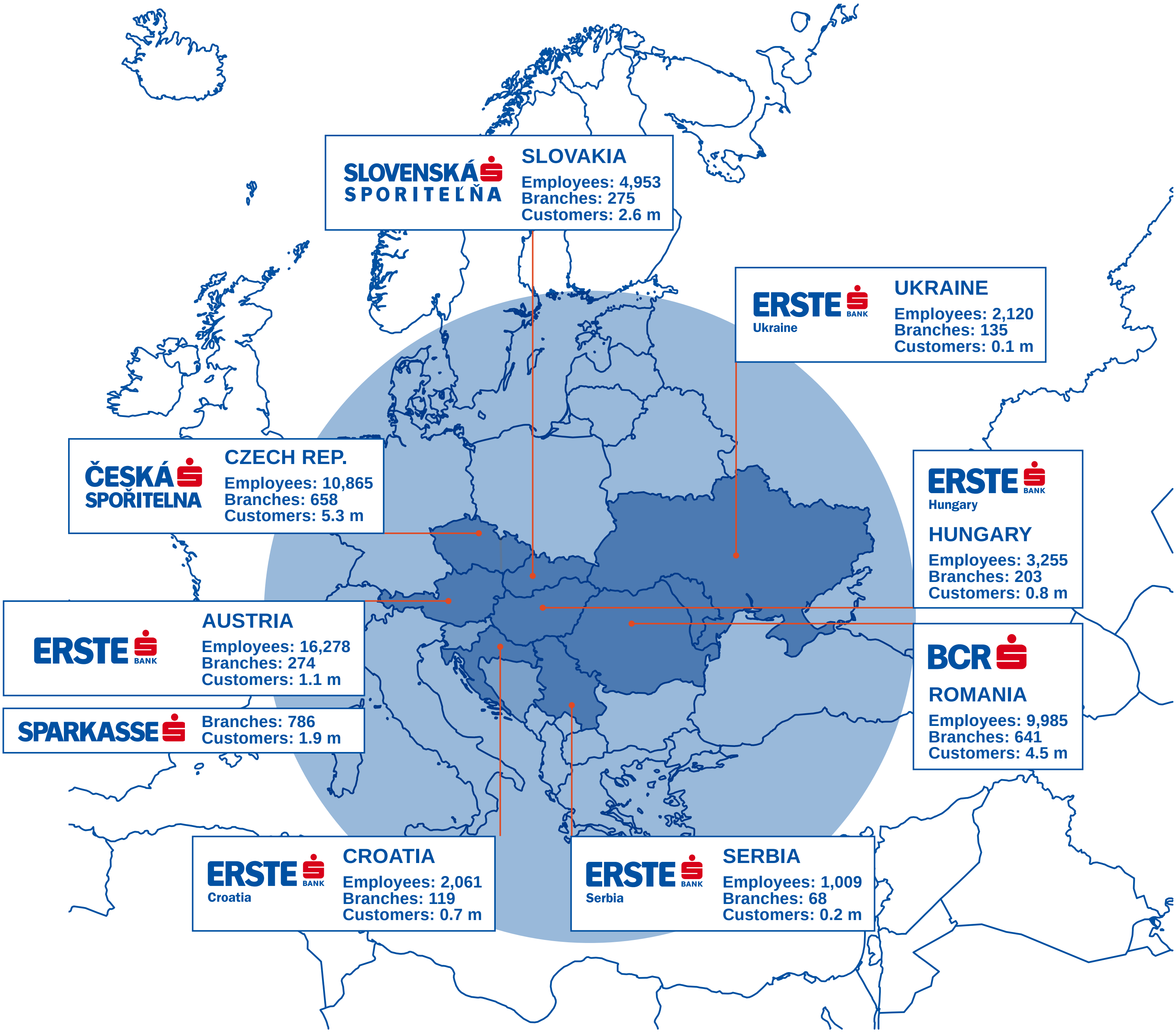
ERSTE GROUP



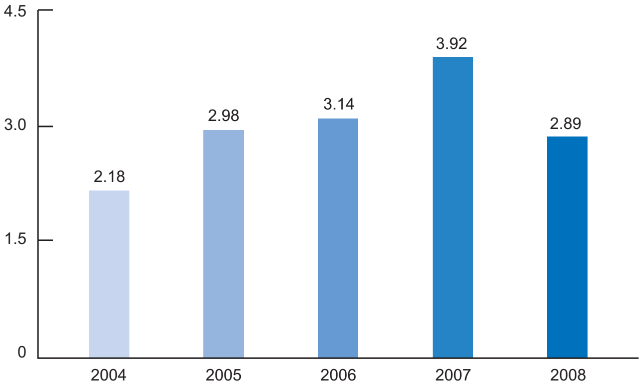
# Annual Report 2008

2008

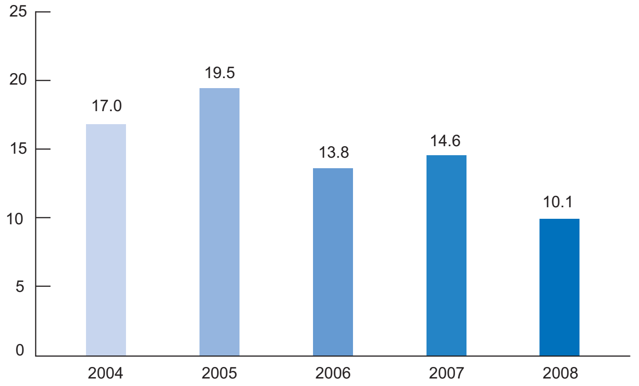
## Extensive presence in Central and Eastern Europe



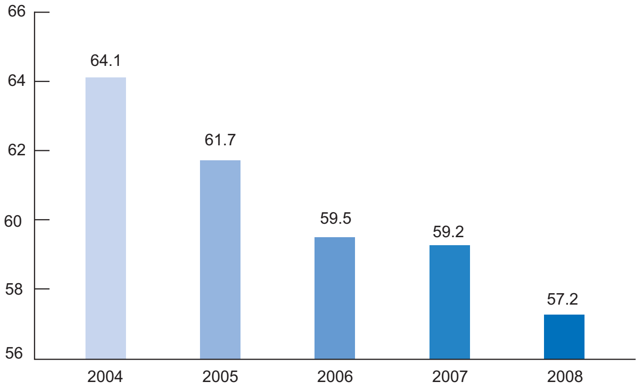
## Cash earnings per share in EUR



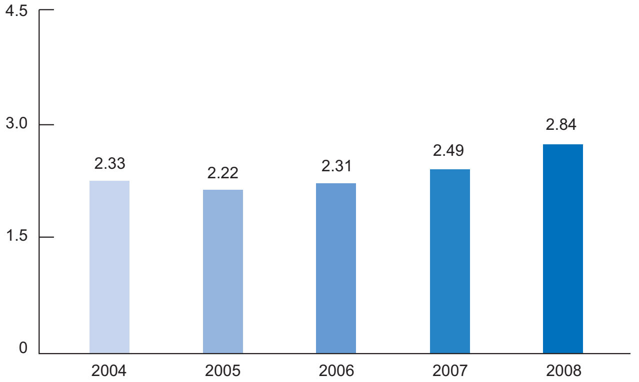

## Cash return on equity (in %)



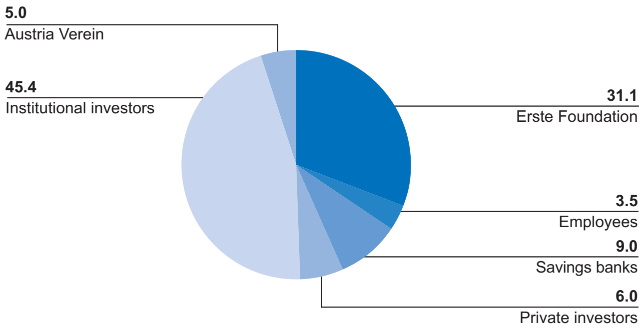

## Cost/income ratio (in %)



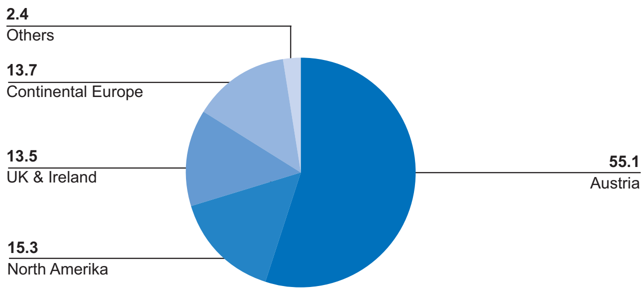

## Net interest margin (in %)




## Shareholder structure as at 31 December 2008 By investors (in %)




## Shareholder structure as at 31 December 2008 By regions (in %)




## Ratings as at 31 December 2008

| | |
|---|---|
| **Fitch** | |
| Long-term | A |
| Short-term | F1 |
| Outlook | Stable |
| **Moody‘s Investors Service** | |
| Long-term | Aa3 |
| Short-term | P-1 |
| Outlook | Under review |
| **Standard& Poor‘s** | |
| Long-term | A |
| Short-term | A-1 |
| Outlook | Negative |

## INVESTOR RELATIONS


**Erste Group Bank AG**
**Milchgasse 1, A-1010 Wien**
Telefon: +43 (0) 50 100 – 17693
Fax: +43 (0) 50 100 – 913112
Email: investor.relations@erstegroup.com
Internet: www.erstegroup.com/ir

**Gabriele Werzer**
Phone: +43 (0) 50 100 – 11 286
Email: gabriele.werzer@erstegroup.com

**Thomas Sommerauer**
Phone: +43 (0) 50 100 – 17 326
Email: thomas.sommerauer@erstegroup.com

**Peter Makray**
Phone: +43 (0) 50 100 – 16 878
Email: peter.makray@erstegroup.com

# Key Financial and Operating Data*

| EUR million (unless otherwise stated) | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|
| **Balance sheet** | | | | | |
| **Total assets** | **139,812** | **152,681** | **181,703** | **200,519** | **201,441** |
| Loans and advances to credit institutions | 15,684 | 16,858 | 16,616 | 14,937 | 14,344 |
| Loans and advances to customers | 72,843 | 80,419 | 97,107 | 113,956 | 126,185 |
| Risk provisions for loans and advances | -2,804 | -2,817 | -3,133 | -3,296 | -3,783 |
| Securities and other financial assets | 35,071 | 39,455 | 42,497 | 44,214 | 41,770 |
| Other assets | 19,018 | 18,766 | 28,616 | 30,708 | 22,925 |
| **Total liabilities and equity** | **139,812** | **152,681** | **181,703** | **200,519** | **201,441** |
| Deposits by banks | 28,551 | 33,911 | 37,688 | 35,165 | 34,672 |
| Customer accounts | 68,213 | 72,793 | 90,849 | 100,116 | 109,305 |
| Debts securities in issue, including subordinated capital | 23,416 | 25,581 | 27,024 | 36,667 | 36,530 |
| Other liabilities, provisions | 13,679 | 14,017 | 15,238 | 17,168 | 9,839 |
| Shareholder's equity | 3,424 | 4,065 | 7,979 | 8,452 | 8,079 |
| Minority interests | 2,529 | 2,314 | 2,925 | 2,951 | 3,016 |
| **Changes in total qualifying capital** | | | | | |
| Risk-weighted assets pursuant to section 22 Austrian Banking Act | 65,384 | 75,078 | 94,129 | 95,091 | 103,663 |
| Qualifying consolidated capital pursuant to sections 23 & 34 Austrian Banking Act | 7,286 | 8,611 | 10,111 | 11,114 | 11,758 |
| Core capital (Tier 1) | 4,377 | 5,112 | 6,185 | 6,674 | 7,448 |
| Hybrid capital | 711 | 900 | 1,250 | 1,248 | 1,256 |
| Solvency ratio pursuant to section 22 Austrian Banking Act | 10.7% | 11.0% | 10.3% | 10.5% | 10.1% |
| Tier 1 ratio | 6.7% | 6.8% | 6.6% | 7.0% | 7.2% |
| **Income statement** | | | | | |
| Net interest income | 2,660.3 | 2,794.2 | 3,189.3 | 3,945.8 | 4,913.1 |
| Risk provisions for loans and advances | -406.2 | -421.6 | -439.1 | -454.7 | -1,071.4 |
| Net commission income | 1,135.4 | 1,256.8 | 1,445.9 | 1,857.9 | 1,971.1 |
| Net trading result | 216.5 | 241.7 | 277.9 | 351.1 | 114.7 |
| General administrative expenses | -2,594.9 | -2,670.0 | -2,945.3 | -3,642.1 | -4,001.9 |
| Operating result | 1,454.1 | 1,659.4 | 2,003.6 | 2,512.7 | 2,996.9 |
| Pre-tax profit | 996.6 | 1,221.7 | 1,522.2 | 1,892.6 | 576.2 |
| Net profit after minorities | 520.8 | 716.7 | 932.2 | 1,174.7 | 859.6 |
| **Operating data** | | | | | |
| Number of employees | 35,862 | 36,150 | 50,164 | 52,442 | 52,648 |
| Number of branches | 2,242 | 2,283 | 2,721 | 2,908 | 3,159 |
| Number of customers (million) | 11.9 | 12.4 | 15.9 | 16.4 | 17.2 |
| **Share price and key ratios** | | | | | |
| High (EUR) | 39.80 | 47.50 | 59.00 | 61.50 | 49.20 |
| Low (EUR) | 24.78 | 36.36 | 40.40 | 44.00 | 13.25 |
| Closing price (EUR) | 39.30 | 47.05 | 58.10 | 48.50 | 16.20 |
| Price/earnings ratio | 18.2 | 16.0 | 19.7 | 13.0 | 6.0 |
| Dividend per share (EUR) | 0.50 | 0.55 | 0.65 | 0.75 | 0.65 |
| Payout ratio | 23.2% | 18.7% | 22.0% | 20.2% | 24.0% |
| Dividend yield | 1.3% | 1.2% | 1.1% | 1.5% | 4.0% |
| Book value per share (EUR) | 14.3 | 17.1 | 25.6 | 27.0 | 25.8 |
| Price/book ratio | 2.7 | 2.8 | 2.3 | 1.8 | 0.6 |
| Total shareholder return (TSR) | 62.0% | 21.0% | 24.7% | -15.4% | -65.1% |
| **Number of shares** | | | | | |
| Number of shares outstanding | 241,442,892 | 243,183,600 | 315,296,185 | 316,288,945 | 317,012,763 |
| Average number of shares outstanding | 238,576,585 | 240,145,648 | 300,272,502 | 312,039,861 | 313,218,568 |
| Market capitalisation (EUR billion) | 9.5 | 11.4 | 18.3 | 15.3 | 5.1 |
| Trading volume (EUR billion) | 6.9 | 8.9 | 16.8 | 23.1 | 29.4 |

*) Share price data adjusted for 4:1 share split of 8 July 2004.
Dividend quoted for 2008 is proposal to annual general meeting.
Shares outstanding include Erste Group shares held by savings banks that are members of the Haftungsverbund (cross-guarantee system).
Trading volume as reported by Vienna Stock Exchange, based on single counting.

# Highlights

## Record operating profit despite financial crisis

_ Net interest income is major revenue driver
_ Cost/income ratio at best ever level of 57.2%

## Extraordinary effects drive decline in net profit

_ Writedown of goodwill in selected CEE countries
_ Defaults of Icelandic banks and Lehman Brothers

## Sale of non-core insurance operations

_ Vienna Insurance Group buys majority stake
_ Long-term partnership agreement signed

## Successful liquidity management

_ Strong deposit base is key competitive advantage
_ Flexible issuance policy proves beneficial

## Capital ratios at comfortable levels

_ Tier 1 ratio at solid 7.2% at year-end
_ State participation capital to further bolster capital

## Unchanged strategic direction

_ Erste Group benefits from sustainable business model
_ Profitable retail banking in EU countries of Central and Eastern Europe

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# Letter from the CEO

### Dear shareholders,

Despite a rapidly deteriorating economic outlook, especially towards the end of 2008 and in early 2009, historic disruptions to the global banking system and distressed financial markets, Erste Group was among a minority of banks to report solid net profit and record operating profit as well as an improved balance sheet structure and a stronger capital position – even before any state support. The major positive highlight for 2008 was the continued highly profitable performance of our CEE retail and SME business. In addition, the successful sale of our non-core insurance assets boosted our ability to cope with the side-effects of the financial crisis and the ensuing economic slowdown: higher risk costs, precautionary goodwill write-downs associated with operations in Ukraine, Serbia and Romania, as well as substantial revaluations and write-downs of financial assets. All in all, net profit amounted to EUR 860 million, down 27% on the previous year, while operating profit came in at EUR 3 billion and the tier 1 ratio reached 7.2% – an historic high for Erste Group. Equally, the cost/income ratio improved to its best ever level at 57.2%.

### 2008 – Financial crisis hits the real economy

2008 was the year in which the multi-decade US debt supercycle that was built on high levels of private sector leverage and fuelled strong asset price inflation came to an end. The ensuing deleveraging process – which is still under way – resulted in unprecedented financial market turmoil and wealth destruction, and led to substantial declines in US and global economic activity, especially in the fourth quarter of 2008. This development was primarily driven by two factors: a complete reversal in investor risk appetite as well as declining credit demand and availability. As wealth creation in the US – and in its tailwind private consumption – used to be a function of rising house and share prices, both of which continue to show a downward trend, the outlook for the world's largest economy remains poor, even before considering that job losses are accelerating at an alarming rate.

The continued decline of the world's largest economy clearly has an impact on the rest of the world, not only as a result of vastly expanded international trade ties but also due to the global nature of today's capital markets and money flows. The demise of the decoupling theory became very much apparent in the final quarter of 2008, when leading export nations, such as Germany and Japan were among the worst hit in terms of GDP decline. Even China, which is also a leading exporter and the world's leading creditor nation, could not escape a substantial economic deceleration and growing unemployment. Naturally, this synchronous slowdown led to growing concerns about the impact of the global financial crisis on our home market Central and Eastern Europe.

### Central and Eastern Europe in the spotlight

It is undisputable that Central and Eastern Europe has been affected by the current global economic and financial crisis, as aversion to potential short-term risks has resulted in a slowdown of investment activity and the decline in global demand is likely to hit smaller open economies with higher export shares. It is also true, however, that most of the countries in which Erste Group operates will remain highly attractive investment destinations. They benefit from a well educated population, a high degree of labour market flexibility, investor-friendly tax regimes and ongoing EU integration. In addition, the region has substantially lower public and private sector debt ratios than most Western economies despite enjoying its fair share of credit growth over the past years. But even this development should be viewed in context: growth rates in the high double-digits were not a sign of excess, but rather the result of the complete absence of any retail banking services as short as 5 or 10 years ago. Or, viewed from another angle, of the 14.2 million customers we serviced at the end of 2008 in Central and Eastern Europe only 314.000 had a housing loan, while only 1.1 million were owners of a credit card, with the majority of the latter being located in the economically advanced Czech Republic.

Another positive for Central and Eastern Europe is that financial asset-based wealth creation has so far remained insignificant. Instead wealth creation was mainly driven by the privatisation of formerly state-owned property at below market rates. This led to very high home ownership ratios across the region without the corresponding high levels of leverage. Accordingly, the collapse in global stock markets has only a limited effect on the personal wealth of the average Central or East European. Similarly, other segments of the economy, such as housing lacked the speculative element that was intrinsic to many developed economies. While property prices clearly appreciated, they typically did so most in the most underdeveloped and higher risk markets, in which we are underrepresented.

### Sound and profitable core business

In the current uncertain economic environment we possess one key competitive advantage: our business model is simple and sustainable. Hence, we do not need to change it; if anything, we need to focus more on it. Our core retail business, which balances loan with deposit growth, has proved to be stable in terms of margins and remarkably resilient in terms of asset quality. This is not to say that risk costs during times of economic difficulty will not rise – they will, but a healthy retail business can absorb a substantial deterioration in asset quality and still remain profitable. In order to further improve the profile of our retail business, products like retail FX lending will be constrained in the future: to this effect we abolished Swiss Franc lending in Austria and Hungary in 2008. While euro FX lending will continue to be offered, we will adhere to even more restrictive standards than we already employed in the past.

Our regional footprint is very much a reflection of our cautious business approach. We have restricted large investments to those countries that had a realistic prospect of EU membership and limited our exposure to higher risk countries, such as the Ukraine and Serbia to relatively small amounts. And, while financial results in all countries have been highly satisfactory, this does not mean that there is no room for improvement. In countries where our growth was not as balanced as that at group level, such as in the Ukraine or in Hungary, we will bring local strategies in line with our savings bank heritage, and focus on deposit-funded lending business. This will lead to slower growth, but also to diminished reliance on parent company funding and hence to a more balanced and sustainable business.

While our focus on retail banking in Central and Eastern Europe was – and due to the long-term catch up potential of the region – will remain the right direction, our record was not unblemished in 2008. We had to write down exposure to defaulted Icelandic banks and Lehman Brothers to the tune of EUR 288 million and EUR 33 million, respectively. Negative revaluations of our structured credit portfolio amounted to EUR 158 million in the profit and loss accounts. And, last but not least, our decision to revise business plans in the Ukraine, Serbia and Romania downwards triggered goodwill write-downs in the order of EUR 570 million. On the positive side, the sale of our insurance business gave us the scope to take the goodwill adjustments in our stride. Given the uncertainties about the economic outlook and higher capital requirements demanded by the market, and alongside multiple capital infusions into the global banking system, we have also decided to bolster our capital position by issuing participation capital to the government and private investors of up to EUR 2.7 billion. Once the transaction has been completed this will result in a tier 1 ratio of more than 9%.

### Does the share price reflect the bank's prospects?

Our share price lost 66% of its value in 2008 and has fallen further in the early months of 2009. While according to the old stock market adage "the market is always right" and despite the fact that the stock market is also a discounting mechanism of future prospects, we also do know that the market has a habit of overshooting on the up- as well as the downside. We believe the latter is the case in the early part of 2009. At this time, all banks are treated the same irrespective of strategic orientation. We will therefore continue to work hard at backing up what we believe is a sound long-term strategy with solid financial results.

### Looking beyond the crisis

The strong underlying performance of the past year once again underscores the continued validity and sustainability of our retail business model in Austria and Central and Eastern Europe, which is also based on the strong commitment of our employees. As always, but in particular this year, our thanks go to the people who work with our customers every day. Beyond the prevailing theme of the financial crisis, the past year was also marked by the sudden and unexpected death of Johannes Kinsky, whom we greatly miss as a colleague and a friend.

While we are convinced about the long-term potential of our markets, we are under no illusion that 2009 will be any easier than 2008. Macroeconomic growth will probably be muted at best, unemployment will go up, business growth will slow down and stock markets will stay volatile. While it will be a challenge to cope with all the typical side-effects of an economic downturn, we are ready to rise to it.

Andreas Treichl


# Management Board

## Andreas Treichl

**Appointed until June 2012**

Born in 1952

He studied economics in Vienna. He started his career with Chase Manhattan Bank in New York in 1977. He first joined Erste Group in 1983 for three years; rejoined the bank in 1994, when he was appointed member of the management board. Chairman of the Management Board since July 1997.

**Responsibilities: Group Communication, Group HR, Strategic Group Development, Group Secretariat, Group Audit, Group Marketing, Group Investor Relations**

## Franz Hochstrasser

**Appointed until June 2012**

Born in 1963

He studied business administration in Graz. In 1992 he joined GiroCredit Bank AG and after the merger with Erste Group in 1997 became member of the management board of the combined entity in 1999. Appointed Deputy Chairman of the Management Board in September 2008.

**Responsibilities: Group Research, Group Balance Sheet Management, Group Capital Markets. On an interim basis: Group Real Estate & Leasing, Group Investment Banking, Group Large Corporates Banking, International Banking, GCIB Operations**

## Manfred Wimmer

**Appointed until June 2012**

Born in 1956

He studied law in Innsbruck. He started his career with Creditanstalt-Bankverein, Vienna in 1982. He joined Erste Group in 1998. After various senior management positions among others as „Head of Group Architecture and Strategic Group Development" he was appointed interim CEO of Banca Comercială Română. He became member of the management board as Chief Financial Officer and Chief Performance Officer as of September 2008.

**Responsibilities: Group Accounting, Group Performance Management, Strategic Group Products**

## Bernhard Spalt

**Appointed until June 2012**

Born in 1968

He studied law in Vienna. He joined Erste Group in 1991 and after various management positions in Austria and the Czech Republic was appointed member of the management board in 2006 as Chief Risk Officer.

**Responsibilities: Group Risk Management, Risk Management International, Group Legal, Group Card Risk Management, Group Compliance**

## Herbert Juranek

**Appointed until June 2012**

Born in 1966

He joined Erste Group in 1999 after working for GiroCredit Bank AG and Reuters Ges.m.b.H. Austria. Member of the management board since July 2007.

**Responsibilities: Group Organisation, Group IT, Group Operations/Processing, Card Operations, Facility Management, Procurement**


# Supervisory Board Report

## Dear shareholders,

In the 2008 financial year we fulfilled our responsibilities under the law and the articles of association. We advised the management board on the governance of the group and monitored the management of Erste Group Bank AG. The management board provided us with regular, prompt and comprehensive reports on all relevant matters. We dealt intensively with the financial crisis in 2008 and its effects on the group. The members of the management board reported on developments in their respective divisions; for some business items, experts were brought in to supply detailed information. Current individual subjects and decisions were discussed on an ongoing basis in meetings between the chief executive officer and the supervisory board president.

## Supervisory Board meetings

At its meetings the supervisory board was regularly informed on the current group financial results, market risk and risk absorption capacity, and briefed by the supervisory board president on the audit subjects and significant findings of the internal audit department. In the meetings the supervisory board committees reported on their activities.

The supervisory board met seven times during the 2008 financial year. All members but one personally attended at least half of the meetings held since their appointment.

On 26 March 2008 the company financial statements and management report for 2007 and the consolidated financial statements and group management report for 2007 were reviewed and approved, as recommended by the audit committee, and the proposal for the appropriation of net profit for 2007 was endorsed. In addition, the decision was made to de-merge the Austrian business. At the ad hoc meeting on 19 April 2008, as a result of the resignation of Peter Kisbenedek from the management board, Manfred Wimmer was appointed to the management board with effect from 1 September 2008 for a term ending 30 June 2012.

At the meeting on 25 June 2008 the supervisory board took note of the report on equity holdings and was briefed with the report on compliance activity for the 2007 financial year. On 24 September 2008 the planned Erste Campus project to be built at Vienna's future main railway station was presented. At the ad hoc meeting on 16 October 2008, the Austrian government's banking package to counter the financial crisis was presented; at the same meeting the potential adoption of such measures to strengthen the capital base was approved.

On 11 December 2008 the budget and overall investment plan of Erste Group Bank AG for 2009 were approved and the board was briefed on the group-level planning for 2009. The supervisory board also discussed the current status in respect of the planned capital infusion under the government's support package for banks.

## Committees of the Supervisory Board

At its meetings, the committee for management board matters approved new terms of reference for the management board, including the allocation of responsibilities and proxy responsibilities. Further, the committee nominated Franz Hochstrasser as deputy chief executive officer. This nomination was ratified by the supervisory board at its meeting on 24 September 2008.

The audit committee met four times in 2008. On 27 February 2008 the agenda included the company's and the consolidated preliminary financial results for 2007; the auditors reported on the status of the audit of the company financial statements and consolidated financial statements.

The audit committee held the final audit meeting on 26 March 2008. During this session, the company financial statements and management report and the consolidated financial statements and group management report were examined and the ratification of the company financial statements was recommended to the supervisory board. The audit committee also took note of the management board's proposal for the appropriation of 2007 net profit available for distribution. The de-merger auditor reported on the audit of the spin-off of the Austrian business. The head of group audit reported on the main audit subjects and significant audit findings of the 2007 audit year and explained the 2009 audit plan. Separately, it was decided to propose Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. as supplementary auditor for the 2009 financial year. In addition, on 28 July 2008 the audit committee heard reports on the group audit rulebook, the anti money laundering project and the planned changes to the Austrian Code of Corporate Governance.

In its 18 meetings held in 2008 the risk management committee regularly made decisions on those investments and loans exceeding the scope of the management board's approval authority and was briefed on the credit facilities approved within the management board's powers. The yearly report on foreign currency lending and interest only loans as well as regular briefings on market risk, risk absorption capacity and structured finance were received. Special reports covered the financial crisis (including the situation at Lehman Brothers and AIG), the liquidity situation, hedge funds and the group's real estate portfolio.

The strategy committee met five times in 2008. It attended to the de-merger of Erste Bank, was briefed on an ongoing basis on the competitive situation in Austria and in the CEE markets and received the report on equity holdings. The strategy committee also dealt with the situation at the banking and other subsidiaries and regularly evaluated the current financial data for the group. At its ad hoc meeting on 10 November 2008 it decided to call an extraordinary general meeting to request approval for obtaining equity capital under the government's banking package.

### Financial statements

The company financial statements and management report as well as the consolidated financial statements and group management report for 2008 were audited by, and received an unqualified opinion from, Sparkassen-Prüfungsverband as the legally mandated auditor and Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. as the selected supplementary auditor. Representatives of both auditors participated in the supervisory board's financial statements review meeting and provided supporting information. We are in agreement with the results of these audits and the proposed appropriation of net profit. We approved the parent company financial statements prepared by the management board, which are thereby adopted in accordance with section 125 (2) of the Austrian Stock Corporation Act. The consolidated financial statements and group management report were also reviewed and accepted.

### Changes in board memberships

On behalf of the entire supervisory board, I express our sadness at the sudden and unexpected passing of management board member Johannes Kinsky, who died on 29 June 2008. He had joined the management board of Erste Group Bank AG as of 1 July 2007 and, despite the briefness of his tenure, made a valuable contribution to the success of the bank, for which we are grateful to him.

Elisabeth Bleyleben-Koren, Thomas Uher and Peter Bosek retired from the management board of Erste Group Bank AG with effect from the registration of the de-merger in the Companies Register on 9 August 2008. Elisabeth Bleyleben-Koren had been a member of the management board since 1 July 1997, most recently as Deputy Chairwoman. The supervisory board extends its sincere thanks to Ms. Bleyleben-Koren for her many years of highly dedicated service. Thomas Uher and Peter Bosek had both been appointed to the management board as of 1 July 2007 in preparation for the planned de-merger. The supervisory board also thanks Messrs Uher and Bosek for their activity and wishes them and Ms. Bleyleben-Koren every success in their roles on the management board of Erste Bank Oesterreich[1].

Hubert Singer, who had been on the supervisory board of Erste Bank since 2000, retired from the board as of the fifteenth annual general meeting on 6 May 2008. We thank Hubert Singer for his committed service on the supervisory board.

The fifteenth annual general meeting newly elected Werner Tessmar-Pfohl to the supervisory board for a term ending at the conclusion of the general meeting that decides on the discharge from liability for the 2012 financial year. Theresa Jordis was re-elected by the annual general meeting and confirmed by the supervisory board in her existing functions on the supervisory board and its committees.

For the supervisory board:

Heinz Kessler
President of the Supervisory Board

Vienna, March 2009

[1] The 2008 annual report of Erste Bank Oesterreich contains additional information on these persons.


# Supervisory Board

### HEINZ KESSLER
**President of the Supervisory Board**
**Tenure: 26 May 1998 – AGM 2012**
Retired Chief Executive Officer
Additional supervisory board memberships:
Deputy Chairman Austria Versicherungsverein auf Gegenseitigkeit Privatstiftung
Member ERSTE Foundation
Chairman Nettingsdorfer Papierfabrik Management AG
Chairman Rath Aktiengesellschaft
Chairman Reform-Werke Bauer & Co Gesellschaft m.b.H.
Chairman Reform-Werke Bauer & Co Holding Aktiengesellschaft
Deputy Chairman UNIQA Versicherungen AG
Functions in companies of the savings banks sector

### GEORG WINCKLER
**First Vice President**
**Tenure: 27 April 1993 – AGM 2010**
Rector of the University of Vienna
Professor of Economics at the University of Vienna
Additional supervisory board memberships:
Member Austria Versicherungsverein auf Gegenseitigkeit Privatstiftung
Deputy Chairman ERSTE Foundation
Deputy Chairman UNIQA Versicherungen AG
Functions in companies of the savings banks sector

### THERESA JORDIS
**Second Vice President**
**Tenure: 26 May 1998 – AGM 2013**
Attorney at law
Additional supervisory board memberships:
Chairwoman Miba Aktiengesellschaft
Chairwoman Mitterbauer Beteiligungs-Aktiengesellschaft
Chairwoman Prinzhorn Holding GmbH
Chairwoman Wolford Aktiengesellschaft

### BETTINA BREITENEDER
**Tenure: 4 May 2004 – AGM 2009**
Businesswoman
Additional supervisory board memberships:
Member ZS Einkaufszentren Errichtungs- und Vermietungs-Aktiengesellschaft

### ELISABETH GÜRTLER
**Tenure: 26 May 1998 – AGM 2010**
Businesswoman
Member of the
General Council of Oesterreichische Nationalbank

### JAN HOMAN
**Tenure: 4 May 2004 – AGM 2009**
Chief Executive Officer of Teich AG
Additional supervisory board memberships:
Member Allianz Elementar Versicherungs-Aktiengesellschaft

### BRIAN D. O’NEILL
**Tenure: 31 May 2007 – AGM 2012**
Retired Businessman
Member of the Board of Trustees of El Museo del Barrio
Member of the Advisory Council of David Rockefeller Center for Latin American Studies
Member of the Council of Americas and the Americas Society

### WILHELM G. RASINGER
**Tenure: 11 May 2005 – AGM 2010**
Advisor
Additional supervisory board memberships:
Member CEE Immobilien Development AG
Member Wienerberger AG

### FRIEDRICH RÖDLER
**Tenure: 4 May 2004 – AGM 2009**
Public Accountant and Tax Consultant
Functions in companies of the savings banks sector

### HUBERT SINGER
**Tenure: until 6 May 2008**
Retired Chief Executive Officer

### JOHN JAMES STACK
**Tenure: 31 May 2007 – AGM 2012**
Retired Businessman

### WERNER TESSMAR-PFOHL
**Tenure: 6 May 2008 – AGM 2013**
Chairman Sattler AG
Chairman Teufelberger Holding Aktiengesellschaft
Functions in companies of the savings banks sector

### GABRIELE ZUNA-KRATKY
**Tenure: 19 May 2006 – AGM 2011**
Director of Technisches Museum Wien

## Staff council representatives:

### FRIEDRICH LACKNER
Chairman of the Staff Council
Additional supervisory board memberships:
Member ERSTE Foundation

### GÜNTER BENISCHEK
**(until 9 August 2008)**
Chairman of the Central Staff Council
Additional supervisory board memberships:
Member ERSTE Foundation
Functions in companies of the savings banks sector

### ERIKA HEGMALA
**(until 9 August 2008)**
Vice Chairwoman of the Central Staff Council
Additional supervisory board memberships:
Member VBV-Pensionskasse Aktiengesellschaft
Functions in companies of the savings banks sector

### ILSE FETIK
**(until 9 August 2008)**
Member of the Central Staff Council
Functions in companies of the savings banks sector

### CHRISTIAN HAVELKA
Member of the Staff Council

### ANDREAS LACHS
**(since 9 August 2008)**
Member of the Staff Council

### DAVID KRIEBER
**(since 17 January and until 9 August 2008)**
Member of the Central Staff Council

### BERTRAM MACH
**(since 9 August 2008)**
Vice Chairman of the Staff Council

### BARBARA SMRCKA
**(since 9 August 2008)**
Vice Chairwoman of the Staff Council

### KARIN ZEISEL
**(until 17 January and since 9 August 2008)**
Vice Chairwoman of the Staff Council


# Corporate Governance

## The Austrian Code of Corporate Governance

In October 2002 the Austrian Working Group for Corporate Governance presented the Austrian Code of Corporate Governance. The Code constitutes a voluntary, self-regulatory initiative that goes beyond a corporation's statutory responsibilities. The Code seeks to promote accountable corporate management and oversight to create value in a sustained way, and to balance and define all rights and responsibilities of all stakeholders – the management, supervisory board, customers, employees, shareholders and the general public – and the relationships between these groups. The Code is designed to ensure a high degree of transparency for all stakeholders. Its full wording is available at www.corporate-governance.at.

The Company Law Amendment Act 2008 as well as international and national developments in 2008 required the adjustment of certain rules of the Code. The most important changes relate to rules covering the corporate governance report, the improvement of compensation transparency, the strengthening of the independence of the supervisory board and its committees and the consideration of the diversity of supervisory board members.

Accordingly, the Austrian Working Group for Corporate Governance adopted a new version of the Austrian Code of Corporate Governance. This will be applicable to financial years, starting after 31 December 2008. The financial year 2008 is therefore still governed by the Code approved in June 2007.

## Clear commitment and external evaluation

Erste Group is committed to complying with the Code of Corporate Governance in the spirit of responsible and transparent business management.

In the 2008 financial year Erste Group complied with all legal requirements ("L rules") and recommendations ("R rules"). The departures from two "comply-or-explain" provisions (C rules) are described and explained on the website of Erste Group at www.erstegroup.com/investorrelations.

In 2006 Erste Group for the first time voluntarily underwent an independent review of its compliance with the Code in the 2005 financial year. This evaluation established that Erste Group complies with all rules of the Code. Another voluntary external review relating to the 2008 financial year is scheduled for the spring of 2009. As with the results of the 2006 review, the review summary will be available on the Erste Group's website at www.erstegroup.com/investorrelations

## One share – one vote

Erste Group is listed on the Vienna and Prague stock exchanges and, since 14 February 2008, on the Bucharest Stock Exchange, with 317.0 million ordinary shares outstanding at the end of 2008. There are no preferred shares and no restrictions on ordinary shares. In Erste Stiftung, a foundation which owns 31.1% of the share capital, Erste Group has a principal shareholder with a long-term focus. The shareholder structure at the end of 2008 is presented on the inside cover of this report.

## Compliance

The responsibility for all compliance issues at Erste Group rests with the group compliance office, a staff unit reporting directly to the chief risk officer. The compliance rules of Erste Group are based on the relevant legislation, such as the Austrian Stock Exchange Act and the Securities Supervision Act; on the Standard Compliance Code of the Austrian banking industry as well as on international practices and standards. Conflicts of interest between our customers, Erste Group and employees are covered by clear rules regarding "Chinese walls", provisions on employee transactions, research disclaimer, gift policy etc.

## Directors' dealings

In accordance with the Stock Exchange Act and the Issuer Compliance Regulation of the Austrian Financial Market Authority (FMA), individual trades by members of the management board and supervisory board in Erste Group shares are published on the websites of Erste Group (www.erstegroup.com/investorrelations) and the FMA.

### Transparency

Investor confidence in public companies is essential to the functioning of the global economy. Transparent operations and reporting play a crucial part in building up confidence. Accordingly, it is one of the main goals of Erste Group and its investors that the financial results fairly reflect the results of its operations. Erste Group has always been diligent in maintaining compliance with its established financial accounting policies, which are consistent with requirements of International Financial Reporting Standards (IFRS) and for reporting its results with objectivity and the highest degree of integrity.

### Risk management

Erste Group's approach to risk management seeks to achieve the best balance between risks and returns for earning a sustained high return on equity. A detailed report on risk policy, risk management strategy and organisation, as well as a thorough discussion of the individual risk categories, are found in the Notes beginning on page 114. In addition, credit risk is analysed in detail in a separate section from page 41 onwards, in the "Segments" section of this report.

## MANAGEMENT BOARD

The management board of Erste Group is responsible for managing the group. It must act to the benefit of the Group and consider the interests of the shareholders and staff. The management board develops the strategic direction for the group, in cooperation with the supervisory board. The management board safeguards effective risk management and risk control. It reaches its decisions with due regard to all relevant laws, the articles of association and its terms of reference.

The composition of the management board and information on its members are presented beginning on page 4.

### The Group Executive Committee

In addition to the holding management board, Erste Group has a group executive committee (GEC). The GEC is the group's highest coordinating body. It consists of the management board of Erste Group and the chief executive officers of all central and east European banking subsidiaries.

The GEC meets six times per year. The meetings address subjects and projects relevant to the group. As the GEC has no formal decision-making powers, the decisions taken are implemented by resolutions of the holding board and the local management boards.

### Compensation of the management board

The total remuneration of the management board is structured so as to be aligned as closely as possible with the interests of shareholders and is described in detail in the Notes on page 112. It consists of a fixed base salary, a performance-related bonus and other compensation. The criteria for the management board's performance-related pay are return on equity, the results of a leadership appraisal for those board members who are responsible for business divisions and the achievement of the business plan targets adopted by the supervisory board. The entire compensation scheme of the management board is currently being redeveloped.

The maximum annual bonus amounts to 200% of annual gross base salary for the CEO, 300% of annual gross base salary for those board members who are responsible for business divisions and 100% of annual gross base salary for all other board members. The maximum bonus is payable when return on equity reaches at least 16% and the leadership appraisal score equals at least 4.6 out of a maximum of 5 points. This notwithstanding, the board members have waived their right to bonus payments for 2008. The ongoing management stock option programme has been terminated in 2008 for the entire group.

The members of the management board also participate in Erste Group's defined contribution pension plan, on the same basis as the other staff. Contributions are calibrated so that, assuming sufficient performance of the pension fund, an appropriate level of income is assured upon retirement at age 65. If a management board member's tenure is ended before that time by no fault of the individual, corresponding compensatory payments are made to the pension fund.

Regarding benefit entitlements of management board members in the event of loss of their position, the standard legal termination benefit conditions of section 23 of the Salaried Employees Act still apply for three members of the management board. None of the other members of the management board are entitled to termination benefits.

## SUPERVISORY BOARD

The supervisory board advises the management board on its strategic planning and undertakings. It takes part in the decisions identified for its attention by the law, the articles of association and the supervisory board's terms of reference. The supervisory board oversees the management board in managing the enterprise.

The composition of the supervisory board, as well as the additional positions held by its members, is presented beginning on page 8. Details on the supervisory board's compensation can be found in the Notes on page 113.

### Independence of the supervisory board members

The supervisory board of Erste Group decided in March 2006 to implement the amended Austrian Code of Corporate Governance and, in this context, adopted the guidelines in Annex 1 of the Code as Erste Group's criteria of supervisory board independence. Based on these criteria, all members of the supervisory board have declared themselves independent. As the former CEO of Česká spořitelna (until May 2007), John James Stack declared himself not independent pursuant to the Guidelines for Independence.

### Committees of the supervisory board

The supervisory board maintains a risk management committee, a strategy committee, an audit committee and a committee on management board matters.

The risk management committee decides on credit facilities and large to very large investments that fall outside the management board's powers of approval. Within the limits of the law and its own authority, the risk management committee may grant authorisations in advance. The committee also has the mandate of monitoring the risk management of Erste Group. As at 31 December 2008 it had the following members:

- **Chairman: Friedrich RÖDLER**
- **Heinz KESSLER**
- **Georg WINCKLER**
- **Theresa JORDIS**
- **Bettina BREITENEDER**
- **Elisabeth GÜRTLER**
- **Bertram MACH**
- **Andreas LACHS**
- **Karin ZEISEL**
- **Substitute members: Jan HOMAN, Wilhelm RASINGER, Christian HAVELKA**

The strategy committee, in its function of overseeing the Group's strategic direction, is responsible especially for scrutinising the budget; reviewing the reports on the individual business units and on business performance; determining investment policy; and setting key strategic goals for the company. The strategy committee is also responsible for overseeing the Group's portfolio of equity holdings. As at 31 December 2008 the strategy committee members were:

- **Chairman: Heinz KESSLER**
- **Georg WINCKLER**
- **Theresa JORDIS**
- **Jan HOMAN**
- **Friedrich RÖDLER**
- **Gabriele ZUNA-KRATKY**
- **Friedrich LACKNER**
- **Bertram MACH**
- **Christian HAVELKA**
- **Substitute members: Wilhelm RASINGER, Andreas LACHS**

The audit committee is primarily responsible for the supervision of the accounting process, the effectiveness of the internal control system, the internal auditing organisation and the risk management system. The audit committee checks and monitors the qualification and the independence of the (Group-) auditor. In addition, it is responsible for the auditing and preparation of the adoption of the company financial statements; the proposal for the appropriation of net profit, the company management report and the corporate governance report as well as for the auditing of the consolidated financial statements and group management report.

The audit committee takes note of the audit plan of the internal audit department and receives information on the audit highlights of the auditor. It receives reports on compliance in the fields of corporate governance and anti-money laundering. As at 31 December 2008, the audit committee was composed as follows:

- **Chairman: Heinz KESSLER**
- **Georg WINCKLER**
- **Theresa JORDIS**
- **Jan HOMAN**
- **Wilhelm RASINGER**
- **Friedrich RÖDLER**
- **Friedrich LACKNER**
- **Barbara SMRCKA**
- **Christian HAVELKA**
- **Substitute members: Bettina BREITENEDER, Andreas LACHS**

The committee on management board matters deals with and decides upon the relationships between the company and the members of the management board. As at 31 December 2008 the committee had the following members:

- **Chairman: Heinz KESSLER**
- **Georg WINCKLER**
- **Theresa JORDIS**

## ACCOUNTING AND AUDITORS

The company financial statements, company management report, consolidated financial statements and group management report of Erste Group Bank AG for the financial year 2008 were audited by Sparkassen-Prüfungsverband as the legally mandated auditor and by Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H., appointed by the annual general meeting as the supplementary auditor.

## FINANCIAL CALENDAR

| Date | Event |
|---|---|
| 30 April 2009 | Q1 2009 results |
| 12 May 2009 | Annual general meeting |
| 15 May 2009 | Ex-dividend day |
| 19 May 2008 | Dividend payment day |
| 30 July 2009 | H1 2009 results |
| 30 October 2009 | Q3 2009 results |

As the financial calendar is subject to change, please check Erste Group's website for the most up-to-date version. (www.erstegroup.com/investorrelations).


# Corporate Social Responsibility

## INTRODUCTION

Corporate social responsibility, far from being perceived as a fad or a nuisance requirement, is for Erste Group an ingrained practice that is firmly embedded in day-to-day corporate life. This basic stance towards CSR goes back to the traditional origins of the savings banks, which have always seen themselves as being guided by the common good. Erste Group's long-standing sense of responsibility to society is thus rooted in our history and continues to grow with us.

For us, CSR is a corporate philosophy that involves the clear goal of the sustainable creation and building of value. This aim can be achieved only when two criteria are fulfilled: We must consider the opportunities and risks arising from economic, environmental and social challenges; and we must address all relevant stakeholders, such as our customers, employees, investors and civil society.

In 2008 our efforts in this area were very visibly recognised when we came second in the annual CSR ranking of the 100 largest Austrian companies sponsored by the Center for Corporate Citizenship Austria.

## CUSTOMERS

With Erste Group's products and services, we always strive to match the client's wishes and requirements as closely as possible. As a financial partner to our customers, we welcome opinions, suggestions and, of course, criticism.

### Retail customers

In Austria in 2008, we created a new discussion platform in the form of a "client parliament" – a kind of customer advisory board – to promote a direct exchange with customers whose critical and creative skills help Erste Group to keep improving. One sensitive topic addressed in this forum was that of how customers perceive turnover in account managers. The frank discussion confirmed the importance of the relationship manager and has prompted plans by Erste Bank Oesterreich to study and optimise the process of relationship manager transition.

As a result of the changing requirements and our aim to become the market leader, an annual customer satisfaction survey, "Qualität NEU", will be conducted beginning in 2009. The survey will continually collect customer feedback all year round. The preparations for this study resulted in a break in the satisfaction survey for 2008, but will lead to a significant improvement in data quality in the coming years.

The complaints-and-suggestions offices that have now been set up in each Erste Group country are to serve as points of contact to receive ideas and criticism and to drive a comprehensive improvement in service quality. Customers thus have someone to approach directly with their thoughts and concerns.

In the annual customer satisfaction survey for Slovenská sporiteľňa, the bank received superb marks, particularly from retail customers, among whom the respondents' level of satisfaction was 97.8%.

In April 2008 Erste Bank Oesterreich launched its first activities for economic migrants. In a pilot project, three Vienna branches actively offered Serbian- and Croatian-language advice and product information as well as specialised financial services. For instance, following up on a need identified in a market study, Erste Bank Oesterreich accommodated the wish for attractive remittance facilities (ways for customers to send money to their home countries). Going forward, additional branches are to provide the service offering for migrant workers.

Since 2007, Erste Group subsidiary Banca Comercială Română has advisory offices across Romania that provide extensive information on EU-funded development projects and also support clients in applying for funding and implementing their projects.

To stand by customers in difficult times, too, is very important to Česká spořitelna. That's why the bank, together with the Czech consumer protection association, has established a credit counselling centre that offers professional assistance.

At Slovenská sporiteľňa, the defining theme in 2008 was the switch to the euro. The bank financed a variety of events, including the nation-wide Euro Day, and projects at schools. Slovenská sporiteľňa was also an initiator of the "Code of Ethics for Businesses for the Euro Changeover", which companies voluntarily sign, thus committing themselves to refraining from unjustified price increases in connection with the changeover to the euro.

The bank established itself as a market leader in this area, not least through its cooperation with the Slovak central bank and other public institutions.

Erste Bank Oesterreich's sustainability-related messages are also addressed at teenagers. Through the spark7 youth club, Erste Bank Oesterreich makes itself available to 14- to 19-year-olds as a trustworthy partner in financial matters and with education and leisure offerings. Key areas of emphasis are money management skills as well as support in personal and career development.

### Small and medium companies (SME)

At Erste Bank Oesterreich the focus in the SME business in 2008 was on working in partnership with SMEs, in particular including the services of the chamber of commerce.

Austria's small and medium-sized businesses, which make up 99.5% of all companies, are the lifeblood of the domestic economy. Yet in financing their investment projects, they are burdened with a government-imposed loan agreement fee of 0.8% of the loan principal. The Austrian chamber of commerce has long been calling for this fee to be abolished. Erste Bank Oesterreich took up the challenge and, under its 100-million-euro campaign to boost SME business, paid the fee for its SME clients, thus providing relief to them. Together with the chamber of commerce, Erste Bank also held numerous events on current topics such as energy efficiency, climate protection and social security measures for companies in this size class.

Under this partnership, support was also provided to young entrepreneurs in starting their businesses. In the jointly hosted competition known as "i2b & GO!" 266 business plans were handed in by prospective entrepreneurs. Experts then provided feedback free of charge. The offering was rounded out by consulting and continuing education programmes through the "GO!" academy for entrepreneurs.

### Ethical investing

In June 2008, Erste Group launched ESPA VINIS STOCK EUROPE EMERGING, the first sustainable equity fund for Eastern Europe. The fund invests in about 50 companies in the Central and Eastern Europe region that attach importance to socially and environmentally responsible business practices.

The new fund is the seventh product in the ESPA VINIS line-up of sustainable investment funds, two of which were established together with the WWF. The fund sponsors are Erste Sparinvest, Erste Group's fund management arm, and VINIS, a subsidiary of VBV-Pensionskasse AG.

These ethical investment funds are only permitted to invest in holdings that have passed a rigorous review by experts. Examples of selection criteria are a light environmental impact, non-reliance on nuclear energy and non-tolerance of child labour.

With ESPA VINIS STOCK EUROPE EMERGING, Erste Group has further strengthened its market-leading role in sustainable investing.

Owing to the financial crisis, ethical funds also saw a decline in assets under management, to EUR 996 million at the end of 2008, although their share total funds assets increased slightly to 4.3%.

## CIVIL SOCIETY

Lending a hand to people in need has been a core value of Erste Group for almost 190 years. Founded in 1819, its precursor "Erste oesterreichische Sparcasse", the first Austrian savings bank, had the mission of giving formerly excluded parts of the population access to simple financial services, and thus to an efficient means of personal financial provision for the future. By virtue of this founding principle of savings banks, the idea of social responsibility has therefore been integral to Erste Group from its very beginnings. It is this traditional calling that is also at the heart of "Die Zweite Wiener Vereins-Sparcasse" (Zweite Sparkasse), which marked its second anniversary in autumn 2008. Zweite Sparkasse provides access to basic financial services for people who for any number of reasons are no longer able to open a regular bank account. By making available an account without overdraft facilities, the goal is to help clients find their way back to an orderly existence. Zweite Sparkasse has already opened 4,300 accounts since its founding. In partnership with credit counselling agencies and specialists from Caritas, it is operated on a volunteer basis by more than 400 employees of Erste Bank Oesterreich. There are now six branches of Zweite Sparkasse across Austria.

"Second Chance" is the name of the first development programme launched by Romania's BCR. The purpose of the initiative is to reintegrate marginalised youth into society and the school system. In 2008 about 2,000 young people were successfully reintegrated. Current projects include the distribution of books to school libraries and provision of financial support and advice to families.

Through the Slovak foundation, Nadácia Slovenskej sporiteľne, a large number of individual projects that add value to Slovak society received the Group's support. To make this possible, the foundation maintains long-standing partnerships with institutions such as the Slovak Physicists Society, the Catholic Community, the Slovak Philharmonic, the Jazz Days Festival and many others.

The platform for the CSR activities in the Czech Republic, Nadace České spořitelny, is a foundation established in 2002. Its focus is on backing social projects that receive insufficient or no support from other donors, such as in elder care and help for people with addictions.

### Partnerships with charitable organisations

Erste Group and Caritas are linked by a long-established partnership that includes joint development work in Central and Eastern Europe. Sharing responsibility for the stable and peaceful social development in this region is a central aim for Erste Group, especially in times of economic turmoil. The Group has therefore helped its partner Caritas since 1999, particularly in working with and for children in Europe's poorest countries. Through a Caritas campaign in 2008, Erste Group sponsored a "youth farm" in Bacova, Romania. Here street kids are able to start a new life. They have the opportunity to go to school, learn a trade and benefit from the stabilising effect of a steady and meaningful daily rhythm by working the farm on which they live.

Another important part of the involvement with Caritas is the fight against poverty in Austria. Thus in 2008 Erste Bank Oesterreich also supported the Caritas autumn campaign for people in need. The campaign motto this year emphasised that happiness grows through sharing. The shared goal with Caritas is to improve the life situation of the almost half a million people in Austria who are poor or in danger of falling into poverty. In addition, one euro from every savings product opened in December 2008 was donated to helping this part of the population.

Erste Bank Oesterreich and Österreichisches Hilfswerk – a non-profit organisation that is one of the country's largest domestic providers of healthcare and general care for the ill, the elderly and children – have been partners since 2003. From the start, the collaboration has focused on two main themes: the major issue of healthcare and general care associated with growing life expectancies; and the importance of family. To bring the wide range of Hilfswerk's services to the public's attention, the partners conduct sweeping publicity campaigns every year. In 2008, Hilfswerk devoted its annual campaign to children and childcare. Encapsulated by the slogan "To each child its own. And the very best for all children.", the initiative was designed to raise awareness of current issues and problems and discuss them among a wide audience.

### Arts and culture

In 2008 the social and cultural initiatives and activities of Erste Group continued to be delivered through "Kontakt – The Arts and Civil Society Program of Erste Group".

The website (www.kontakt.erstegroup.net) is the central information hub for this successful programme. With a regular newsletter and an online magazine on current developments in the arts and civil society in Austria and Central and Eastern Europe, this website in German, English, Czech, Slovak, Hungarian and Croatian has become a virtual landmark destination for those who take a cultural and social interest in these regions.

In addition to the web presence, Erste Group publishes "Report", a magazine covering the arts, sciences and society in Central and Eastern Europe. Published twice yearly in print and five times per year as an online edition, Report is a fixture on the website. In 2008 the magazine won a distinction in Austria's prestigious MAECENAS arts sponsorship awards. In the "Arts and Media" category, "Report" was recognised in the Special Award segment. This marked the twentieth time that the award was handed out. It is awarded by the independent Austrian Business Committee for the Arts in cooperation with the ORF (the Austrian Broadcasting Company) and the Austrian chamber of commerce.

An important part of Kontakt is the art collection of the same name owned by Erste Group. This singular collection is concerned with art production in Central, Eastern and Southeastern Europe and the associated contemporary art discourse and critical theory. The aspiration of the Kontakt art collection is to present works that apply a holistic approach to creating a pan-European art history. An exhibition was held in early summer in Hungary's Dunaújváros at the Institute of Contemporary Art, followed by an exhibit at the Austrian Cultural Forum in New York.

#### Music

Every year since 1989, the Erste Bank composition commission is awarded to a young Austrian composer. At the "Wien Modern" festival the premiere of the resulting work is performed by Klangforum Wien (a leading ensemble for contemporary music whose main sponsor since 2007 has been Erste Bank Oesterreich) and the piece is also added to two other concert programmes of this outstanding ensemble. The compositions from the commission's first 18 years are collected in a publication titled "Creation of Value – The Erste Bank Composition Commission, 1989–2007".

### Film

For the fifth time last year, Erste Bank Oesterreich acted as partner and principal sponsor of the Viennale, Austria's largest international film festival, which attracts about 90,000 visitors annually. As in the past, the bank's customers and employees had access to tickets at reduced prices, a print issue of Report magazine, an exclusive film brunch and the festival lounge.

### Fashion

Erste Bank Oesterreich is a long-term partner to Unit F, the Vienna association for contemporary fashion. Since 2006, the "Kontakt Fashion Award by Erste Bank" is thus presented at the Vienna Festival for Fashion & Photography to a designer from Central and Eastern Europe. The winner is selected by an international jury of experts and receives a cash prize. The winning collection is also presented live on the runway at the Austrian Fashion Awards Night.

### Literature

Last year Kontakt supported Unabhängiges Literaturhaus Niederösterreich, an organisation that helps promising and interesting authors to gain exposure. This project, now sponsored for the fourth year, enables authors from Central and Eastern Europe to spend two months in Austria to present their works through readings. In addition, the writings of these largely still unknown authors are introduced to the German-speaking public in "Top 22", a regularly published anthology.

### Fine arts

For many years Erste Bank has been working closely with Secession, a renowned artists' association and independent gallery. On the giving side of this connection from the bank's perspective, exhibitions and a number of publications and events are made possible every year. On the receiving side, the partnership is also intended to benefit the employees of Erste Bank Oesterreich, by bringing them into close contact with art and culture as an enriching dimension of life. In this spirit the two partners have developed an art appreciation programme that regularly offers special tours, pre-openings, gallery visits and lectures.

Tranzit, a platform started in 2002, is a network of initiatives dedicated to the promotion of contemporary art and theory in Central and Eastern Europe. It provides opportunities for artists, curators and theorists to work together in developing creative approaches and socially relevant strategies for the new sociopolitical trends in Europe.

Under the umbrella of "Kontakt", Erste Bank Oesterreich has since 2005 been supporting the participation of Eastern European galleries in the VIENNAFAIR art fair, thus enabling them to introduce artists to the international art market. In 2008 the number of sponsored galleries grew from 15 to 17.

## Sports and physical activity

In 2008 Erste Bank Oesterreich sponsored more than 175 events for runners throughout the country.

Austria's largest running-related initiative, Erste Bank Sparkasse Running, represents a perfect symbiosis of preventive healthcare and financial provision for the future. The Vienna City Marathon is also sponsored by Erste Bank Oesterreich every year. At the Vienna Night Run – a charity run in support of Light for the World, a provider of vision care in developing countries – the bank was the main sponsor for the second time in 2008.

In addition to these activities and the Erste Bank Ice Hockey League, the involvement in sports sponsorships continued to include the traditional role of promoting the development of new cadres of young players in the school soccer and volleyball leagues.

## Education

Together with Mobilkom, McKinsey, OMV, Vienna Insurance Group and Wolf Theiss, Erste Group took part in students4excellence. This programme's ambition is to bring the partners together early on with the top students from Austrian universities and allow students to network among themselves. The partner companies provide assistance with entering the job market, organise events with the potential employers and, for selected students, offer mentorships as well as products from their respective industry.

In 2008/2009, in collaboration with OMV and the Executive Academy at Vienna University of Economics and Business Administration, Erste Group for the second time conducted an MBA programme for junior managers from Romania. Out of more than 100 applicants, 20 were chosen for the programme. In the selection process, importance was attached to approving as many applicants as possible who are not employed by the partner entities (Petrom and BCR), in order to demonstrate that boosting young management talent in Romania also has a social responsibility dimension.

In July, for the eighth year, "Danubia Summer University" was staged in cooperation with Wirtschaftsuniversität Wien (Vienna University of Economics and Business Administration). Sixty students from Austria, the Czech Republic, Slovakia, Hungary, Serbia, Croatia, Romania and Ukraine travelled to the countries where Erste Group operates. The scientific part of the curriculum was contributed by the partner universities of Wirtschaftsuniversität Wien while the practical elements were provided by the banking subsidiaries of Erste Group.

A leading role in corporate social responsibility was taken by Erste Bank Oestereich together with University of Vienna in connection with the lecture series “CSR – On Companies’ Economic, Environmental and Social Responsibility”. The purpose of the lectures was to reflect on fundamental questions of business ethics and introduce best-practice models of economic, ecological and social responsibility in their specific applications. The set of lectures brought together economists, philosophers, sociologists and practitioners from business and civil society (NGOs) in an interdisciplinary meeting of minds. Thanks to the enthusiastic participation and the openness of the project partners involved, pioneering steps were identified to advance the interdisciplinary research focus of business ethics. The discussions with students constituted an active stakeholder dialogue.

Since 2006, Erste Group, in conjunction with the Erste Foundation supports the Balkan Case Challenge. This annual case study competition aims to strengthen the coordination between university education and business and to foster the exchange of knowledge and ideas between the best students from South-eastern Europe and Austria.

Via seminars, lectures and a dedicated website, more than 3,000 Romanian pupils between the ages of 15 and 19 acquired knowledge of financial literature, economics and banking. Through the instruction modules and the close cooperation with BCR staff, the intent is to kindle the young people’s interest in banking and finance subjects. This programme was conducted together with the Romanian ministries of education and finance and is based on a partnership with Junior Achievement Romania, part of one the world’s largest youth education organisations.

In Slovakia a very special project was carried out to bring pupils and companies closer together. In an effort to promote the training and further education of young talent, Slovenská sporiteľňa became the first bank in Slovakia to work with selected business colleges to better adjust the curricula to the needs of the business world.

The changeover to the euro played a particularly important role in Slovenská sporiteľňa’s education initiatives. Assistance was given mainly to projects that helped educate and support the public. Together with long-standing partner Cisco Systems and the ministry of education, a unique online learning system was devised that gave pupils more information on the European Union and the single currency.

## STAFF

### Key staff indicators – (Austria, ex savings banks)

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Employee turnover | 5.1% | 5.5% | 4.8% |
| Sick days per year | 6.8 | 7.0 | 7.9 |
| Training days per year | 3.2 | 3.2 | 2.6 |
| Women in management positions | 24.4% | 22.9% | 23.1% |
| Share of part-time staff | 21.6% | 22.5% | 22.8% |
| Share of female part-time staff | 84.9% | 85.5% | 86.4% |

### Staff survey

As mentioned in the previous annual report, in autumn 2007 a Group-wide employee survey was conducted, covering 55 entities of the Group in seven countries. The response rate was 55%. The analysis of the survey data was completed in 2008. It produced valuable insights that form the basis for a suite of follow-up actions:

- **The flow of information is rated as very positive.**
- **Erste Group is perceived as relatively innovation-oriented. In completing tasks, compliance with rules is seen as more important than achieving goals.**
- **Performance management lacks efficiency and a consistent style.**
- **The administration of Erste Group is perceived as too centralised.**
- **A high percentage of respondents identify very strongly with the Group.**
- **In terms of motivation, the results show a profile strongly driven by consumption. Customer satisfaction is important to staff, while there tends to be a critical view of the work itself and many employees do not feel valued enough.**
- **There is a strong reluctance to move geographically for work reasons.**
- **In conjunction with their high expectations of the company, employees have a very high degree of trust and confidence in the group and the new organisational structure. The employee profit sharing scheme is also rated as very positive.**
- **Employees expect greater emphasis on service improvement and would like more Group projects that focus on the following areas in particular: customer service; financial support for professional development; training; and best-practice models.**

With the help of these survey results, the first improvement measures were developed. The Group plans to build a clear and transparent performance management system and implement a best-practice culture. These two initiatives are to become the main pillars of the internal culture of Erste Group. In 2009 these two thrusts will be central to the Group's human resources activities.

### Work and family

For the third time now, both Erste Bank Oesterreich and Erste Group were recognised with the full certificate of the Work and Family Audit from the Austrian Ministry of Health, Family and Youth, and 2008 marked the bank's ten-year anniversary as an audited organisation. In connection with the 2008 audit, the action plan for the coming three years was put in place. This includes especially the implementation of a new career model, the evaluation and expansion of work/family opportunities and services for staff, and a number of innovations in management training.

Under the Affirmative Action for Women initiative of the Austrian Ministry of Economics and Labour, the package of work/life balance measures taken by Erste Bank Oesterreich was recognised as one of the ten best projects promoting better conditions for women. This programme aims to improve reintegration into the workplace after periods of materninty leave and to enhance women's access to jobs and to promotions.

### Health

Erste Group has no higher priority than the health of its employees, a value that is enshrined in the statement of the Group's guiding principles.

In 2008 all employees in Austria were offered a preventive medical check-up including a spine examination; 40% of staff made use of this opportunity. Also available to employees were melanoma screening and an eye and vision exam. All preventive medical care was performed in the workplace. In addition, staff had access to medical and psychological advice and treatment at the health centre of Erste Bank Oesterreich. The centre also offers nutrition counselling and physiotherapy. Last year the health centre logged about 9,000 consultations.

October 2007 saw the launch of First Health, a healthcare improvement project for trainees. This one-year initiative was honoured with an award by Fund for A Healthy Austria as a particularly innovative project, and was financially supported by the Fund. The goal was the focused maintenance and improvement of trainees' health. As one indicator of its success, this project reduced illness-related absences among trainees by more than half.

In Romania the collaboration with a private clinic since 2007 that gives all employees access to high-quality medical care was expanded. Going forward, BCR has decided to extend this service to staff family members as well.

In 2008 Slovenská sporiteľňa had all workplaces and working conditions analysed and made improvements to ensure these are in line with the latest health and safety standards. The preventive medical checkups for staff were expanded to include all employees, with an emphasis on the early detection and treatment of cancer. These programmes were used by 79% of the workforce.

### Staff development

In February 2008 the Group founded Erste School of Banking and Finance, one of the first corporate universities in Austria. Its goal is the further development of technical excellence among the Group's staff. The in-house university provides a framework for standardised continuing education at the country-level banks. One programme offered by Erste School of Banking and Finance is the Erste Group Junior Training Programme, through which 46 trainees from ten Central and Eastern European countries are currently being schooled in risk management, corporate investment, real estate banking and treasury. The curriculum consists of a mix of hands-on training in different countries, and online learning. In September, a lecture series titled "The Power of Trust" was held For Erste Group's senior management, in which experts from the fields of banking, neurobiology, social sciences and philosophy shared scientific insights into the nature of trust.

The Group-wide initiative known as Group Talent Management was first introduced in 2006. This programme is designed for talented employees from any part of Erste Group that are willing to contribute and apply their knowledge across national borders. By the end of 2008, this had allowed 23 managers and 40 promising individuals without management responsibility to be given individual support and be prepared for international career opportunities.

"Learning from Experience" was the guiding theme of a novel approach to management training. In 2008 a new form of management mentorship programme was developed that offers an alternative to conventional educational opportunities. As part of the programme, experienced managers pass on their knowledge and experience to other managerial staff. The benefits can be mutual. For the mentors, it is an opportunity to both reflect on their practices and to encounter the thought processes of other generations and levels of management. In turn, mentees can learn from the knowledge and skills of their mentor and further their personal development. Erste Bank Oesterreich was thus able to give experienced managers exposure to current technical and social developments while at the same time advancing the training of young, capable leadership talent.

In May 2008 the outplacement programme of BCR commenced, in cooperation with an external national provider. Working closely with public agencies, 35 career counsellors organised training and information events for BCR employees. In this way, within six months, 90% of all staff affected by the wave of redundancies were provided with detailed information and advice on the programme.

## ENVIRONMENT

### Key environmental indicators*

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Flight distance (km per employee) | 3,015.5 | 1,643.3 | 938.0 |
| CO2 emissions (tonnes per employee) | 3.1 | 2.9 | 2.7 |
| Water consumption (litres per employee) | 11,816.2 | 12,209.8 | 15,586.0 |
| Paper consumption (kg per employee) | 30.8 | 47.2 | 55.9 |
| Energy consumption (kWh per employee) | 318.3 | 320.0 | 332.3 |
| Electricity (kWh per employee) | 234.0 | 190.8 | 196.0 |
| Heat energy (kWh per employee) | 84.3 | 129.2 | 136.2 |
| Waste (kg per employee) | 267.5 | 346.2 | 279.5 |

*) The statistics on kilometres flown and carbon dioxide emissions were calculated on the basis of the data for Erste Group Bank AG in Austria and of 4,184 employees. The other metrics are based only on the headquarters buildings of Erste Bank Oesterreich, with a total of 55,301 square metres of space and 2,791 employees.

The milder summer and winter and the selective use of cooling and heating systems led to a significant decrease in energy consumption. Energy and paper use also continued to fall considerably, thanks to the regular use of energy monitoring and analysis, the conservation measures taken and the active involvement of the whole staff. The continuation of the waste reduction programme substantially lowered the amounts of waste produced. The sharp rise in kilometres flown is explained by the increased travel to the more distant Central and Eastern European countries. To counteract this trend, a greater use of video conferencing is planned.

All environmental measures are regularly evaluated by an established environment team.

As a result of its environmental activities, Erste Bank Oesterreich was recognised as an "Eco-Business" through the 2008 ÖkoProfit project.

In September 2008 the winning design was selected in the architectural competition for the new Group headquarters, the Erste Campus. The first basic specifications for the innovative project were determined, with the following key considerations:

_ **Energy concept with ambitious conservation targets (setting of consumption limits, simulation of room temperatures, air humidity and quality, documentation of fresh air supply)**
_ **Business case (life cycle cost, sustainability analysis)**
_ **Emissions analysis (use of physical resources, recyclability of building materials)**
_ **Quality assurance during construction**
_ **Ergonomics**
_ **Monitoring during operating phase**

With a view to environmental certification, the objective is to meet a low-energy building standard. Particular emphasis is being placed on adhering to the principles of sustainable construction. The primary energy requirement will therefore be well below the present average for office buildings. The design and execution will also incorporate the trends of modern forward-looking office building construction, such as flexibility, sustainability, mobility, electronic connectivity, ergonomics and design, safety and cost reduction.

For Slovenská sporiteľňa, the most significant event in 2008 environmentally was the completion of the Slovak group's new headquarters. By autumn the move to the new offices had almost been completed. The new premises meet the highest European standards of safety, technology and environmental friendliness and provide a pleasant workspace for employees.

Together with Erste Holding, Slovenská sporiteľňa supported the reforestation of Slovakia's Tatra National Park, whose forest cover had been devastated by a storm in 2004; the institution's financial backing sent a clear message of environmental engagement in its home country. For this project, Slovenská sporiteľňa received the 2008 "ENERGY GLOBE Award".

A prominent issue in the first quarter of 2008 revolved around Mochovce, a nuclear power plant project. Erste Group engaged in intensive dialogue with NGOs and other representatives of civil society to discuss questions regarding the financing of the Mochovce nuclear generating station. Against the backdrop of Slovenská sporiteľňa's participation in an international consortium for the financing of energy group Slovenské elektrárne, criticism was voiced to the effect that through this consortium, Erste Group was helping to finance atomic energy in Eastern Europe. For Erste Group this was the first controversy of its kind, and the bank responded swiftly. An environmental assessment was commissioned and consultations with experts from the scientific community were stepped up to gain full insight into the complex issue and include all relevant stakeholders. Ultimately, in view of unmet environmental requirements, a legally binding agreement was reached with the energy company that absolutely no monies from Slovenská sporiteľňa are to be used for the financing of the high-risk reactors 3 and 4 at the Mochovce power plant. Erste Group is convinced that this decision has contributed to the much-needed dialogue on the necessary security standards for nuclear power stations.

As an important in-house consequence of the Mochovce debate, a new organisational unit, Reputation Risk Management, was formed. Furthermore, ethical ground rules for financing and investment are in development, as is the inclusion of environmental and social risks in a uniform risk management framework for Erste Group.

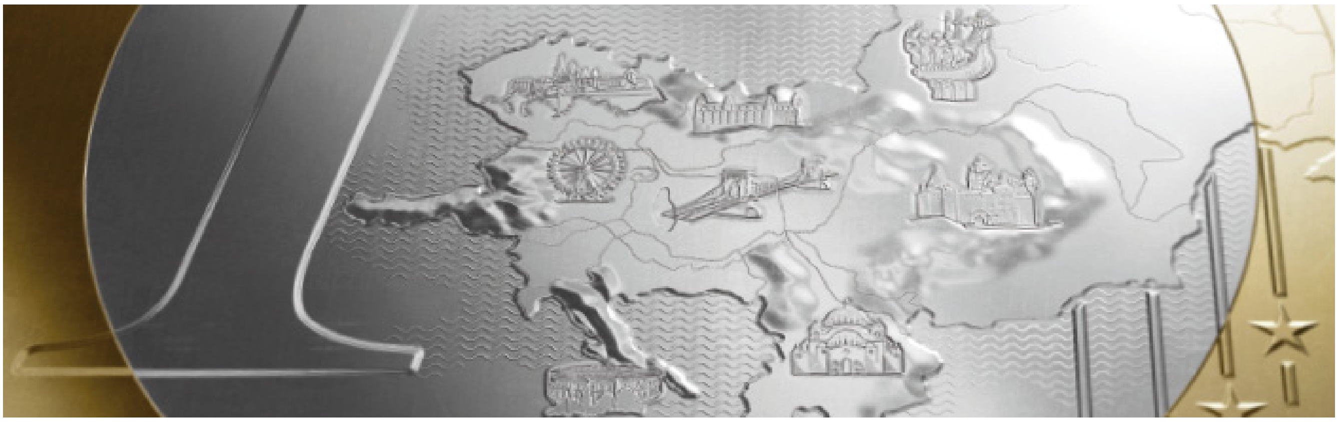
Further environment-related highlights in the last financial year included:

- **Expansion of the recording of environmental data at the branches of Erste Bank Oesterreich and continuation of the energy use monitoring activities**
- **Completion of the new programme for replacing printers and multifunction machines at the central offices and branches of Erste Bank Oesterreich**
- **Creation of secure bicycle parking at two central locations and provision of company bicycles to increase the staff's physical mobility**
- **Changing of heating systems and use of innovative building fronts in branch refurbishments**
- **Start of the changeover to natural-gas-powered vehicles for the technicians at the property management subsidiary**
- **Completion of the changeover in outdoor branch advertising to energy-saving LED lighting**
- **Collaboration with klima:aktiv, an initiative of the Austrian environment ministry; klima:aktiv promotes active climate protection and is part of the Austrian Climate Strategy. The goal here is the rapid and broad-based market launch of climate-friendly technologies and services.**
- **Project work on the design of an environmentally advanced bank branch ("eco bank branch") with the Wieselburg Campus of Fachhochschule Wiener Neustadt (Wiener Neustadt University of Applied Sciences) with a view to developing standards of sustainable construction for Group branches.**

### Preview of environmental activities

The environment will continue to be an important topic for Erste Group in 2009, when the following measures are planned:

- **Construction of the "eco bank branch" in collaboration with the Wieselburg Campus of Wiener Neustadt University of Applied Sciences, and expansion of the concept to additional branches**
- **Driver training for a reduced environmental and economic impact (fuel-saving techniques)**
- **Expansion of the fleet by further natural-gas-powered vehicles**
- **Installation of additional secure bicycle parking in central locations**
- **Analysis of mobility behaviour**
- **Continuing participation in the ÖkoProfit project**



# Erste Group Share

Continuing the trend of 2007, when the share price of Erste Group registered its first net calendar-year decline since 1999, last year the share remained caught in the dramatic international downtrend. In 2008, despite the continuing good business performance, Erste Group, one of the leading banks in Central and Eastern Europe with over 17 million customers, saw a decrease of more than 66% in its share price.

## DEVELOPMENT OF STOCK INDICES

### Stock markets in the grip of the financial crisis

As a result of the financial crisis which has been continuing since the third quarter of 2007, the international stock markets have been recording dramatic price falls over the last year. At year-end the Dow Jones Index was at a level not seen since 2003, and the S&P 500 Index was at its lowest since 1997. American indices closed the period under review down 33.8% (Dow Jones Index) and 38.5% (S&P500 Index). The Dow Jones Euro Stoxx Index fell by 44.3% over the course of 2008.

Dramatic liquidity bottlenecks caused by the collapse of the interbank market, and the increasingly evident negative effects on the real economy made it necessary for measures to be taken by governments, financial market regulators and central banks. In the second half of 2008, the credit crisis reached its peak with the collapse of Lehman Brothers and the bankruptcy of Iceland.

### Intervention by governments and central banks support the banking system

In the United States, imminent insolvencies and emergency sales of banks and financial institutions led to the biggest wave of nationalisations in US history and to the reorientation of the country's financial industry, bringing in their wake greater bureaucratisation and control by the US Fed. Similarly, a 700 billion dollar government rescue package was approved in order to secure the flow of credit. The deterioration in macroeconomic data (incoming orders, industrial production, consumer confidence, employment market data), as well as corporate profit warnings confirmed the downwardly revised forecasts and warnings of a longer recession, as issued by both the US Fed and the European economic research institutions. Against the background of the economic downturn, a series of concerted global key interest rate reductions to historic lows was undertaken by the central banks. The final stage of these rate cuts that started in autumn 2007 was reached when the US Fed reduced the key interest rate to almost zero. In addition to the reduction of the "Fed Funds Rate" to its lowest level since it was first determined in 1971, there was also an unlimited buying of mortgage-backed securities over and above the original framework of US$ 600 billion.

In the fourth quarter of 2008, the escalation in the United States led to a deepening of the financial crisis in Europe, after massive write-downs within many major European banks had already caused losses in the first three quarters. In Europe, too, as a result of liquidity bottlenecks in interbank business and the problems associated with possible cash outflows, some banks had to be rescued by means of public guarantees and nationalisation measures. In addition, the European Central Bank and other European issuing banks poured billions into the money market to maintain the liquidity of the banks. In the year ended, the Dow Jones Euro Stoxx Bank Index, which represents the most important European bank shares, recorded a fall of 63.7%, 40.6% in the fourth quarter alone.

### ATX loses more than 60%

The development of prices on the Vienna Stock Exchange reflected the deepening global financial crisis and its effects on the real economy. At the end of the year the ATX (Austrian Traded Index) stood at 1,750.83 points, its lowest level since February 2004. By comparison with other European indices, the ATX showed a disproportionate fall of 61.2%. The liquidity crisis on the Russian financial market, and the upgrading of the country risk by the Fitch ratings agency for some Eastern European countries in which Austrian groups are present, also contributed to the price pressure. Similarly, the oil shares weighted in the ATX fell to 2004 levels as a result of the oil price collapse following record highs in the first half of 2008. Financial securities and, in particular, real estate shares recorded the greatest losses.

## DEVELOPMENT OF THE ERSTE GROUP SHARE

### Uncertainty concerning economic development in Central and Eastern Europe leads to a marked decline

The spread of the liquidity crisis to Europe, and concerns as to further economic growth in the CEE markets, have led to marked losses in the Erste Group share price. In the fourth quarter alone, the Erste Group Bank AG share suffered a fall of over 50%. At the close of 2008, the share price stood at EUR 16.20, down 66.6% on the previous year's value. By way of comparison, the Dow Jones Euro Stoxx Bank Index lost 63.7%.

Despite the extremely difficult market conditions, Erste Group's fundamental performance in 2008 was satisfactory. In addition to the sale of the insurance business, the net profit of EUR 860 million was largely a result of the continued strong profitability of our CEE retail business. Nonetheless, the Republic of Austria's offer to subscribe participation and hybrid capital of up to EUR 2.7 billion was accepted in order to meet the new capital standards required by international competition.

Because of the deteriorating market environment, reservations concerning the further development of the macroeconomic situation in the CEE countries, and the slower growth of Erste Group that is consequently to be expected, analysts have withdrawn their result estimates and target share prices. In the long term, however, Erste Group's strong positioning and its solid capital resources, as well as the strengthening of the equity basis as a result of the participation capital provided by the Republic of Austria, is seen as positive.

### Trading volume and market capitalisation

A capital increase from contingent capital (under management stock option and employee share ownership plans) increased the number of Erste Group's outstanding shares last year from 316,288,945 to 317,012,763. As a result of the decrease in the share price, the market capitalisation of Erste Group at the end of 2008 was EUR 5.1 billion, compared with EUR 15.3 billion at 31 December 2007.

The trading volume of the Erste Group share expanded significantly in the year under review. On average in 2008, about 1,612,962 Erste Group shares were traded per day on the Vienna Stock Exchange. This represented an increase of about 90% in average daily turnover compared to 2007. The value of the traded volume rose by almost 27%. The share's trading volume on the Prague Stock Exchange, where Erste Group has been listed since October 2002, rose by 49% from the prior year to approximately 405,740 shares per day.

On 14 February 2008, trading of Erste Group shares began on the Bucharest Stock Exchange. Average daily trading volume was 8,630 shares.

### Performance of the Erste Group share*

| | Erste Group Share | ATX | DJ Euro Stoxx Bank Index |
|---|---|---|---|
| Since IPO (Dec 1997) | 46.2% | 34.2% | – |
| Since SPO (Sept 2000) | 37.9% | 49.8% | -58.0% |
| Since SPO (July 2002) | -7.0% | 43.5% | -41.2% |
| Since SPO (Jan 2006) | -64.0% | -55.1% | -61.0% |
| 2008 | -66.6% | -61.2% | -63.7% |

*) IPO ... Initial Public Offering/Börseneinführung, SPO ... Secondary Public Offering/Kapitalerhöhung.

## DIVIDEND POLICY

Since 2005 Erste Group's dividend policy has not been based on a fixed dividend payout ratio, but rather on the management board's intention to increase the dividend by a minimum of 10% compared to the year before provided that targets for the respective year were achieved. Given the difficult market conditions in 2008, which led to a decrease in net profit for the year, the management board decided to propose a decreased dividend of EUR 0.65 (2007: EUR 0.75) to the Annual General Meeting. At this level the dividend payout ratio remains at historic levels of about 20-25%. This enables Erste Group to retain a large part of its profit and strengthens the bank's capital base. In future, Erste Group aims to continue to pay a dividend, the amount of which will be determined by the bank's profitability, growth outlook and capital requirements.

## INVESTOR RELATIONS

In May 2008, after the presentation of the results for the first quarter, Erste Group's management and investor relations team conducted the spring road show. Similarly, the strategy and positioning of Erste Group against the backdrop of the financial and credit crisis were presented at numerous international banking and investor conferences organised by Morgan Stanley, Merrill Lynch, JP Morgan, Goldman Sachs, ING, UBS, Deutsche Bank and Société Générale, as well as at road shows in London and New York held jointly by Vienna Stock Exchange, Erste Group and other Austrian banks. In total last year, the management and the IR team conducted 480 one-on-one or group meetings with local and international investors (2007: 515 meetings).

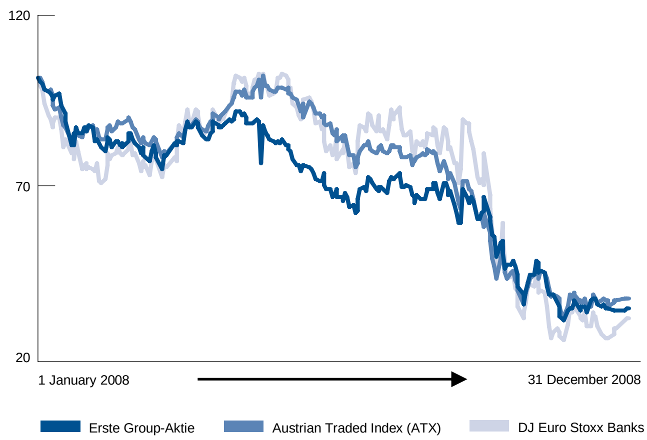
A further milestone in the now ten-year history of the Erste Group share was its first day of trading on the Bucharest stock exchange on 14 February 2008. In addition to Vienna and Prague, the shares of Erste Group are thus now also quoted on the exchange in the Romanian capital – the first listing of an international group in Bucharest.

On 12 December 2008 Erste Group held its sixth international Capital Markets Day in Vienna. The more than 50 institutional investors and analysts drawn to the event were briefed in detail by the management on the trends and prospects in Erste Group's markets amid the current macroeconomic conditions. Strong interest was demonstrated in the live webcast of the Capital Markets Day on the Internet, which was downloaded 1,273 times on the day of the event.

Two events last year were designed specifically for Erste Group's retail shareholders. On 14 April 2008, Erste Group hosted the eighth annual Internet chat forum with its Chief Executive Officer. This "virtual meeting" gave many current and prospective retail investors the opportunity to communicate directly with CEO Andreas Treichl. On 9 October 2008 shareholders had the chance to speak to the retail shareholder representatives on the supervisory board.

The strong interest in the Erste Group share was documented by the numerous research reports on the Erste Group. A total of 27 investment banks published research on Erste Group including five that initiated coverage during the year.

### Performance of the Erste Group share (indexed)




### Research coverage of Erste Group:

_ Cazenove
_ Cheuvreux
_ Citigroup
_ Credit Suisse
_ Deutsche Bank
_ Fox-Pitt, Kelton
_ Goldman Sachs
_ ING
_ JP Morgan
_ KBC Securities
_ Keefe, Bruyette & Woods
_ Kepler
_ MainFirst
_ Merrill Lynch
_ Morgan Stanley
_ Nomura
_ Raiffeisen Centrobank
_ Sal. Oppenheim
_ Société Générale
_ UBS
_ Unicredit
_ Wood


# Strategy

## Consistent strategy despite global financial crisis

2008 was a defining year for bank strategies, as the deepening of the global financial crisis exposed weaknesses in business models that have strayed away from the traditional banking model. Strategies that were built on the availability of ample, low cost liquidity in the form of wholesale funding rather than deposit taking collapsed. Strategies that were too heavily focused on loan origination without any consideration for risk and subsequent securitisation were no longer feasible. Strategies that employed excessive levels of leverage had to be abruptly adjusted and made way for a sometimes disorderly deleveraging process. In short, banks without a sustainable and balanced business model – be it in terms of customers, funding, capital base, product mix or investment discipline – had to rethink their strategy.

**Erste Group's strategy rests on 3 pillars**

CONSISTENT STRATEGY since 1997 IPO

↓

| Business focus: retail banking | Geographic focus: Central and Eastern Europe | Efficiency focus: Holistic approach to efficiency |
|---|---|---|

↓

VALUE CREATION FOR SHAREHOLDERS, CLIENTS AND EMPLOYEES

The key elements of our strategy have been in place since the initial public offering in 1997. The fact that even in a crisis year like 2008 no material changes were required is testament to its quality in terms of sustainability and balance, and a key competitive advantage. Overall, our strategy continues to rest on three pillars: the business focus pillar identifies the development of our retail and SME banking operations as our key activity; the geographic focus pillar defines Central and Eastern Europe as our home market and the efficiency focus pillar links these two, by setting out the vision of operating as efficiently as possible. The efficiency pillar covers all aspects of the business, rather than being confined to organisational efficiency or cost management; in 2008 the main topics in this respect were the completion of the redesign of our new group governance model and the efficient management of capital and liquidity resources in light of waning risk appetite and deteriorating fundamentals.

## Business focus – retail banking

A clearly defined business focus lies at the core of our operations: we directly serve 17.2 million customers in eight core markets and operate some 3,200 branches, as well as state-of-the-art alternative distribution channels, such as internet and phone banking. Hence, while we do have substantial operations outside retail banking, retail banking is our core competence. This core competence in retail banking is a direct result of the bank's history and accordingly woven into Erste Group's genetic fabric. In 1819 wealthy Viennese citizens donated funds in order to establish Erste Group's predecessor, a savings bank. They aimed to bring affordable banking services to wide sections of the population. This goal is just as valid today as it was some 190 years ago, especially against the backdrop of operating in Central and Eastern Europe.

In today's context, retail banking is attractive to us for a number of reasons: it offers a compelling business case that is built on market leadership, a favourable risk reward profile and the principle of self-funding; comprehensive scope in terms of product offering, covering simple and understandable products with substantial cross-selling potential; and, the opportunity to operate in well diversified markets both geographically and in terms of maturity. In short, our retail banking model allows for sustainable, self-funded and profitable growth even in economically more challenging times.

The business case is characterised by a number of favourable parameters: market leadership in all key countries gives us a competitive edge in terms of pricing power, makes it easier to attract deposits, especially in tougher economic times, and offers a more diversified revenue base. The business case also benefits from a favourable risk reward profile resulting in a lower level of revenue and risk cost volatility than experienced in corporate or investment banking. Consequently, our earnings growth has historically been strong and stable, our provisioning levels were almost unchanged over a number of years and as a result our capital requirements were lower. While in the current economic environment earnings growth will clearly slow down or disappear altogether, risk costs will go up and capital requirements will rise, we strongly believe that due to the continued underpenetration of most of our markets the retail business will remain profitable throughout the down cycle.

Our retail banking activities are not focused on a niche, but cover a comprehensive range of standard banking products that are simple and understandable and satisfy actual customer needs. The depth of the product range, comprising current accounts, debit and credit cards, deposits and investment products, and, mortgages and consumer loans, also translates into meaningful cross-selling potential among the existing customer base. The wide product mix also adds to customer and geographic diversification and means that we can draw on our broad product knowledge in mature markets and selectively apply those retail banking products that are most suited to our clients' needs in less developed markets.

Another positive factor is the diversification across customer segments and countries, which is a result of operating in a portfolio of markets that are at different stages of economic development: Austria is a mature and stable banking market, the Czech Republic, Romania, Slovakia, Hungary and Croatia are developing transformation economies, while Serbia and the Ukraine are emerging banking markets. In terms of customers, we service private individuals in the mass and mass affluent market segments, free professionals and micro as well as small and medium enterprises.

### Geographic focus – Central and Eastern Europe

In the late 1990s we came to the conclusion that our long-term future as an independent bank was very much contingent on finding new markets outside Austria: at that time growth opportunities were limited, leaving only repeated cost cutting exercises as a way to improve the bottom line. As a result we decided to make a long-term commitment to the markets at our doorstep that had a realistic prospect of EU membership, essentially our neighbouring countries in Central Europe – the Czech Republic, Slovakia, Hungary, Croatia and Slovenia. We defined an extended home market of 40 million people with the clear intention to enter these markets by making selected acquisitions. In Austria we pursued a policy of seeking closer integration with the savings banks sector in order to increase scale, offer our clients better value and work more efficiently.

Since then we have far surpassed our initial goals. Our home market now covers a contiguous region of 120 million inhabitants, we service 17.2 million customers, 16.2 million of which are residents of the European Union, we have successfully integrated more than ten acquisitions in Central and Eastern Europe, and in Austria we have made a quantum leap forward in our efforts to work more closely with the savings banks through the establishment of a new cross guarantee system. This agreement forms the basis for a wide-ranging cooperation between Erste Group and the savings banks covering such aspects as common back office structures, common marketing and common product development.

Creating a favourable risk reward profile was always at the forefront of our expansion into Central and Eastern Europe. We achieved this by committing large investments to lower risk EU member countries, such as the Czech Republic or Slovakia, while limiting exposure to high potential but high risk, non-EU member countries, such as the Ukraine or Serbia. This has yielded great benefits: shareholders have enjoyed sustainable earnings growth, customers can access our comprehensive range of services in more countries than ever before, and our employees have more development opportunities than at any time in the company's history. Consequently, we will continue on our proven path, maintaining and developing our footprint in Central and Eastern Europe.

### Efficiency focus – a holistic approach to efficiency

Our aim to work more efficiently across the group is a direct result of our rapid expansion. It also reflects the realisation that a number of tasks are more efficiently carried out on a group-wide, standardised basis, while sales efforts are best handled locally. Or put differently, we aim to create a more successful banking group of what is already a successful group of banks. After performing a project-oriented approach in realising synergies, we took the natural next step and introduced a new group governance model in order to ensure strategic flexibility and increased efficiency.

The organisational restructuring related to the new group governance model was completed in 2008 and led to the spin-off of the Austrian retail and SME business into a stand-alone subsidiary – Erste Bank Oesterreich – and to the setup of an operating holding company. In addition to executing classic steering functions, Erste Holding also became home to two operating divisions in the form of the newly established Global Markets (GM) and Group Corporate and Investment Banking (GCIB) divisions. These units consolidate debt capital markets and treasury activities on the one hand and equity capital markets, corporate banking, real estate and international wholesale banking activities on the other for the first time. This allows better group-wide coordination, improved market presence and regional as well as industry-specific customer service.

In contrast to Erste Holding the regional subsidiaries in Central and Eastern Europe as well as the spun-off Austrian customer business, Erste Bank Oesterreich, will run the local retail and SME businesses. In addition, group-wide platforms for regional business topics (e.g. retail cross-selling initiatives) will ensure the adoption of best practices and exchange of experience across the group.

The implementation of the new governance model is a key milestone in Erste Group's development. The management of Erste Bank Oesterreich can now fully focus on running the Austrian customer business and the cooperation with the savings banks, while the new group board can focus on strategy and exert equal attention to the performance of all businesses. This creates the basis for stable growth and further synergies in the future.

Another efficiency aspect that came to the forefront in 2008 was the efficient management of capital resources. In light of the deepening financial crisis and mounting losses at many West European and US banks investors demanded higher capital ratios from all banks. As collapsing share prices made it difficult for most banks to issue equity at reasonable terms or in sufficient amounts, governments across the globe stepped in offering to purchase core capital eligible securities as a medium term solution. In order to maintain a level competitive playing field the Austrian government also launched a banking package valued at EUR 100 billion, comprising EUR 15 billion of capital infusions, EUR 75 billion in state guarantees in order to ensure continued access to liquidity, and EUR 10 billion in additional deposit insurance coverage. While we posted our best ever tier 1 ratio in 2008 – at 7.2% – prudence required us to take up the measures offered by the government. Accordingly, we have entered into agreements setting out the issuance of up to EUR 6 billion in state guaranteed bonds in order to further bolster an otherwise solid liquidity position, and the issuance of up to EUR 2.7 billion in core tier 1 eligible participation capital, in order to further strengthen our capital base.

## LONG-TERM DEVELOPMENT DRIVERS

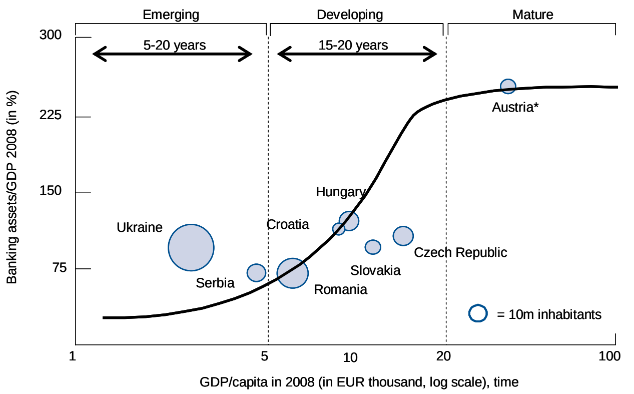
While business growth will clearly not be a topic for the immediate or possibly even the medium-term future as a result of the weakening global economic fundamentals, we will still briefly present the long-term development patterns in our markets, as well as the three most important determinants of our long-term growth: retail business, wealth management and the continued business development within our existing CEE markets.

### Development patterns

Our business model benefits from a long-term growth profile that extends over the next 15 – 20 years and is tied to the economic catch-up process of Central and Eastern Europe. While this process is characterised by phases of faster growth as well as retrenchment periods, the underlying trend is clearly pointing towards a long-term, sustainable growth path. Our business model derives its strength from the fact that our markets are at different stages of development. For this purpose, we have classified our markets into three clusters: emerging, developing and mature markets.

Emerging markets are characterised by a GDP/capita level of below EUR 5,000 and a banking asset penetration of some 60% or less; for classification purposes we use only GDP/capita as financial intermediation measures can temporarily show inconsistencies as a result of unsustainable growth bursts. Depending on the economic position at the start of transformation, we estimate this period to take between 5 – 20 years. Within our business portfolio Erste Bank Serbia and Erste Bank Ukraine, our Serbian and Ukrainian subsidiaries respectively, operate in such markets. At this stage of development growth is mostly derived from plain-vanilla banking products, such as savings and payments transfers as well as current accounts and debit cards. While household loans usually play an insignificant role at these levels of income, an increase in the banked population is typically a major source of growth.

**Banking development stages in transformation economies**




*) Domestic assets only

Source: Local central banks, Erste Group.

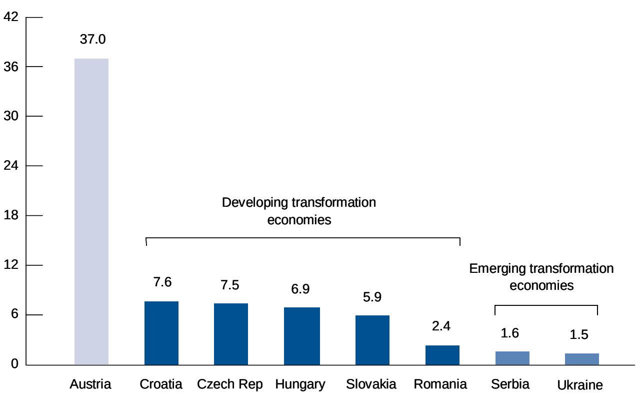
Developing markets feature GDP/capita between EUR 5,000 and EUR 20,000 and a banking asset penetration ratio of anywhere between 60% and 140%. We estimate that this stage lasts at least 15 – 20 years. In this period retail lending comes of age and transformation countries reach a level of wealth that facilitates the introduction of more sophisticated banking products, such as mortgages, credit cards and consumer loans as well as wealth management products. Our central European businesses in the Czech Republic, Slovakia, Hungary, Croatia and Romania fall into this bracket.

Mature markets are defined by GDP/capita in excess of EUR 20,000 and banking asset penetration north of 150%. These tend to offer only selected growth opportunities and typically only grow in line with GDP. We find it useful to operate in such markets to the extent that we can draw on experiences and transfer knowledge to less developed markets. Depending on the factors that influence market structure, the most significant of which is shareholder orientation or the lack thereof, these markets can either be very profitable such as in the UK or Spain, or less so, such as in Austria or Germany.

### Retail business growth

In many of the countries in which we operate, modern retail banking services except for deposits were non-existent just a couple of years ago. On the lending side, this was firstly because nominal and real interest rates were high, secondly because disposable incomes did not support household credit growth and thirdly because of a lack of a healthy competitive environment due to high levels of state ownership. All this has changed over the past few years: in developing transformation economies interest rates are in the process of convergence or have already converged, disposable incomes have risen strongly on the back of overall GDP growth, and most state banks have been sold to foreign strategic investors fostering product innovation and competition. Even in the face of the current economic slowdown and potential temporary negative effects for the banking systems in Central and Eastern Europe this powerful combination will be the driver of future development.

**Customer loans/capita in CEE (2008) in EUR thousand**




Source: Local central banks, Erste Group.

The comparison of per capita indebtedness in Central and Eastern Europe with that of mature economies reveals an enormous gap that exists even today. Countries such as Hungary and the Czech Republic, but also Croatia and Slovakia are many years away from reaching Austrian, let alone west European levels of loans per capita; even on a relative basis these countries are far off Western levels. This picture is even starker in emerging economies: levels of private sector and especially household indebtedness in Serbia or Ukraine barely register on the radar screen in the context of developed economies. While the current global economic decline will likely lead to a new assessment as to the sustainable level of debt, and to a decline in lending activity in Central and Eastern Europe at least in the short-term, we continue to believe that credit expansion accompanied by long-term economic growth will prove to be a secular growth trend, rather than a process that has already surpassed its peak.

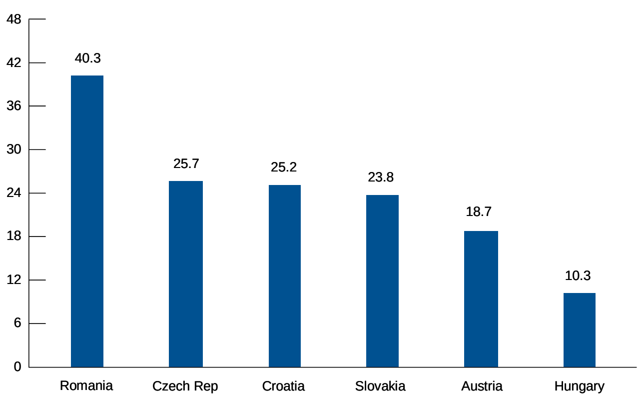
Within the overall loan growth trend, we will particularly benefit from our focus on the retail customer. In almost all of our markets retail lending, particularly in the form of residential mortgages, has only just started. A case in point is mortgage penetration: it equals about 15-20% of GDP in our most developed markets, while it is still substantially lower in Romania, Serbia or the Ukraine. Even in Austria this measure only stands at about 25%, leaving room for growth, while in the European Union it reached an estimated 50% in 2008.

### Wealth management

As customers become wealthier, another source of long-term growth will be wealth management, which covers our affluent banking and fund management activities. Irrespective of when this business actually becomes meaningful, we are already uniquely positioned to benefit from any such development: we dominate the fund management markets in our existing central and east European universe with a market share of 20%. In addition, we can draw on our experience in Austria, where we are leaders in retail funds and hold the No. 2 spot overall with a market share of 19%. While we also used to be active in the life insurance business and established substantial footholds in all key CEE markets, we have sold off these operations to Vienna Insurance Group and entered into a long-term distribution agreement with them. This way we will continue to benefit from the expected rise in demand for insurance products over the long term.

The growth dynamics in fund management differ fundamentally from those experienced in standard banking products, in so far as meaningful growth typically kicks in at a later stage of economic development. Based on historic trends in countries such as Spain or Austria, we estimate that growth in fund management reaches critical mass when nominal GDP/capita substantially and sustainably surpasses the EUR 10,000 mark. Almost all developing transformation economies, such as the Czech Republic, Slovakia, Hungary and Croatia have either surpassed or are closing in on this level. It is at this level that we believe basic consumption needs are satisfied and attention starts to shift towards providing for the future. The current economic environment is, of course, not conducive to substantial growth in wealth management activities in the short term, as clients focus on safety first and put any new money into deposit products, rather than committing it to mutual or pension funds.

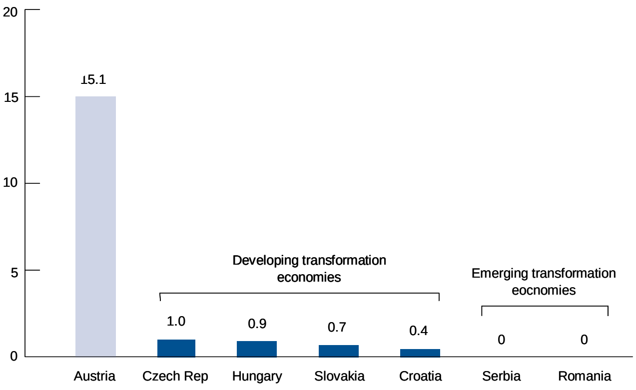
**Fund management market shares (2008) in %**




Source: Erste Sparinvest.

This notwithstanding, the divide in fund management between mature and developing markets on the one hand, and between developing and emerging transformation economies on the other is even starker than that experienced in the area of loans. Funds under management per capita in Austria equalled EUR 15,100 at the end of 2008, while the same figure stood at about EUR 1,000 and EUR 900 in the Czech Republic and Hungary, respectively. In Romania the fund management market is in the very early stages of development, with funds under management standing at EUR 233 million or only EUR 11 per capita. In Serbia the legal infrastructure for fund management was only established in 2007 and accordingly all the growth is still to come.

**Funds/capita in CEE (2008) in EUR thousand**




Source: Local fund management associations, Erste Group.

The wealth management opportunity is best illustrated by a striking comparison. At the end of 2008 we managed assets of EUR 24 billion in Austria, a market of 8.3 million people. In our developed central and east European markets, covering the Czech Republic, Slovakia, Hungary and Croatia, which have a combined population of just over 30 million, the same figure stood at only EUR 5.2 billion. While growth patterns were severely disrupted in 2008 as a result of financial market turmoil, with funds under management falling faster in CEE than in Austria, the long-term trend still points towards faster growth is CEE. Based on the long-term catch-up trend developing CEE funds under management could reach 50% of the Austrian levels inside ten years.

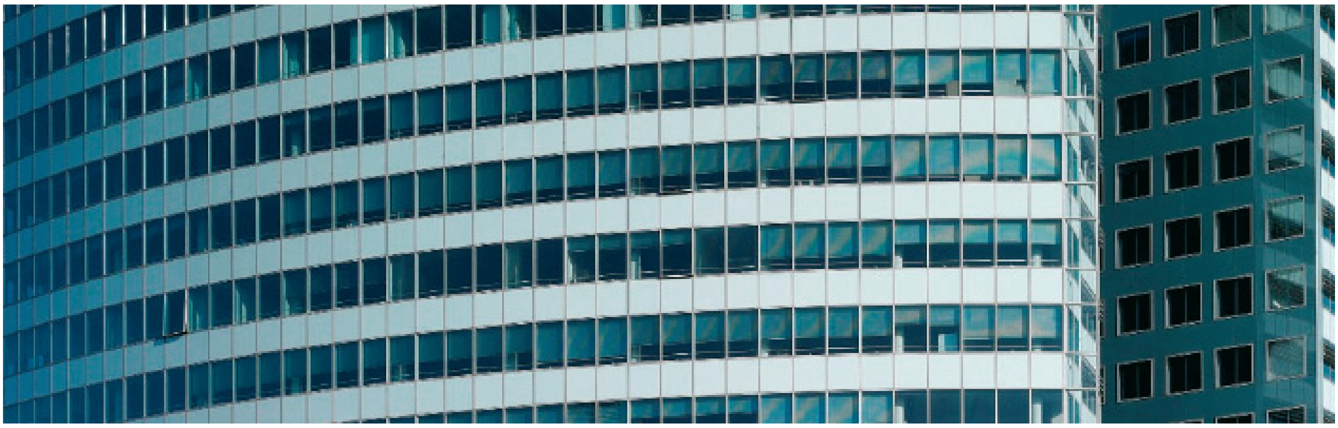
### Developing existing CEE markets

While we expect to be one of the major beneficiaries of the macro trends in retail banking and wealth management in Central and Eastern Europe, regional expansion through large-scale acquisitions will no longer be the preferred way to grow the business, at least not in the short or medium term. All the more, as we are already operating in a well-diversified and underpenetrated market of 120 million people. The existing market therefore offers ample opportunities for business growth, even without adding further markets to the portfolio.

The quality of our existing franchise is a reflection of our measured acquisition policy in the past that struck a sensible balance between risk and return. In markets where political and economic risks were higher, typically in countries that had no immediate hope of joining the European Union, we limited our investments to levels that minimised our down-side, while at the same time allowing us to capture the opportunity. Cases in point are our operations in Ukraine and Serbia. In the former we effectively entered the market through a greenfield operation, while in the latter we only established a regional, instead of a country-wide presence, reflecting our assessment of the market at the time. To countries that had a realistic prospect of speedy European integration, such as those in Central Europe, we committed substantial resources.

Irrespective of the actual market entry strategy, we always adhered to a defined set of guiding principles in our expansion. Firstly, within the EU we always bought a bank with a leading market position or when this was not feasible an operation that we felt had a chance of reaching a market share of 15 – 20% in terms of clients and/or retail products, either through bolt-on acquisitions or organic growth. Outside the EU our operations should offer a solid base to achieve such a market share if we saw fit. Secondly, any new bank had to fit the existing network and be beneficial to our clients. Thirdly, we only acquired majority stakes in order to exert full management control.

As a result of our successful acquisitions we now occupy market leadership positions in key CEE countries, such as the Czech Republic, Slovakia and Romania. We are also among the top five banks in Hungary and Croatia, and hold small market shares in Ukraine and Serbia. In markets where we already have a strong presence our goal is to maintain our market position; in other markets we will carefully assess the business environment in light of the evolving economic situation and distinguish between short-term tactical positioning and long term growth. Even though in the short-term this might lead to the scaling back of operations in fringe markets, such as Ukraine, we are firmly committed to all of our markets in the long term and hence aim to expand our market share especially in countries where we are currently underrepresented.



# Management Report

## ECONOMIC ENVIRONMENT 2008

The year 2008 was marked by the onset of an economic slump in the USA and an accompanying economic downturn in the rest of the world. While inflation fears still prevailed during the first half of the year as commodity prices continued to soar, which also kept interest rates rising in the euro area, the second half of the year brought a plunge in economic output. The trigger was the dramatic worsening in autumn 2008 of the US-led financial crisis that had been simmering all year. While several large financial institutions were shored up by government intervention, the collapse of others sparked instability and volatility in financial markets. These developments led to a progressive deterioration in the outlook for growth, which in turn drove commodity prices sharply lower and caused interest rates to fall.

Austria did not yet feel the full effect of the negative international environment in 2008. Gross domestic product in 2008 still grew by an estimated 1.8%, compared with 3.3% in the year before. However, towards the end of the year, Austria also witnessed a marked slowdown in growth; in particular the export-oriented sectors with their exposure to the world economy were hurt by falling demand. To cushion the impact of the economic crisis, the Austrian government passed a package of support measures for banks, introduced tax cuts and increased social expenditure.

In the markets of Central and Eastern Europe, growth in the countries relevant to Erste Group generally remained high for the year as a whole. However, towards the end of the year, this region too was drawn into a powerful downswing. Full-year growth in real GDP was thus 3.7% in the Czech Republic, 7.6% in Romania and 6.1% in Slovakia, which joined the euro zone on January 1, 2009. Hungary continued to struggle with the braking effect of the budget consolidation and a much tighter credit environment and only achieved growth of 0.9%. As in Western Europe and the USA, inflation fell substantially in Central and Eastern Europe. The interest rate policies of the central banks were largely determined by local conditions concerning currency stability and inflation management. Thus, interest rates fell steeply in the Czech Republic as a result of its currency strength, but rose in Hungary and remained stable in Romania after increases at the beginning of the year.

## PERFORMANCE 2008

Regarding the rates of change stated below it should be considered that two savings banks joined the Austrian Savings Banks in December 2007 and four additional savings banks in January 2008 and are therefore incorporated in the consolidated financial statement from this point in time. Investbanka a.d., Skopje, acquired by Steiermärkische Sparkasse, has been included into the Group results starting 1 October 2008. Furthermore, Erste Card Club (formerly Diners Club Adriatic), Croatia has been part of the consolidated financial statements since 2 April 2007 and ABS Banka, Bosnia, acquired by Steiermärkische Sparkasse, since 3 April 2007. This results in minor distortion of the rates of change compared with the comparative periods for the previous year.

### Write-down of goodwill in Romania, Serbia and Ukraine

In view of the deterioration in global macroeconomic conditions which occurred in 2008 and its future anticipated effects on Central and Eastern Europe, management decided to adapt its short term business plans accordingly. As a result, goodwill in Serbia and Ukraine was fully written down in the amount of EUR 65.5 million and EUR 21.3 million, respectively and goodwill in Romania was partially written down in the amount of EUR 480 million. These measures were allocated to the Corporate Center.

### Sale of the insurance division

Erste Group Bank AG largely completed the sale of its insurance holdings in Central and Eastern Europe including s Versicherung in Austria to WIENER STÄDTISCHE Versicherung AG – Vienna Insurance Group – on 15 September 2008 following the approval of the responsible competition and local insurance supervision authorities. The transaction in Romania was completed – after final consent by the Romanian competition and insurance supervision authority – on 17 December 2008. As part of this transaction, Erste Group and its local subsidiaries will continue to hold 5% of the local insurance companies. The total consideration of the transaction amounted to EUR 1,145 million. The contribution to Erste Group net profit from the sale amounted to EUR 601.5 million in 2008 (before minority interests: EUR 630.8 million).

In addition to the sale of the insurance subsidiaries, a mutual sales cooperation agreement was concluded for a period of 15 years. The value of the sales agreement amounts to approx. EUR 300 million. This amount will be accrued over 15 years.

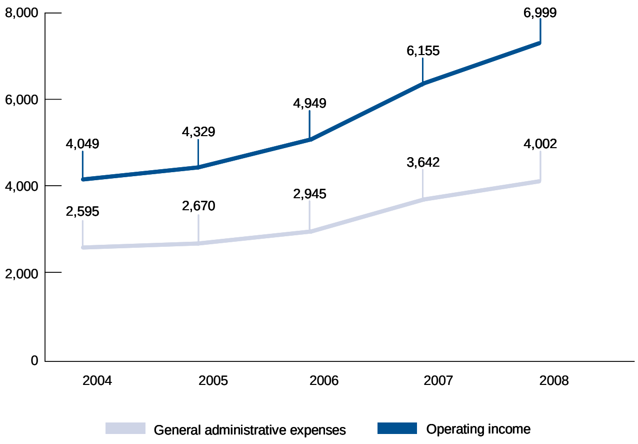
## Overview

Despite an extraordinarily difficult market environment Erste Group increased operating profit significantly by 19.3% due to a strong retail business in Central and Eastern Europe.

**Net profit after minority interests** declined by 26.8% to EUR 859.6 million. Without the write-down of intangibles in Romania, Serbia and Ukraine, net profit would have been up by 14.1% to EUR 1,340.1 million.

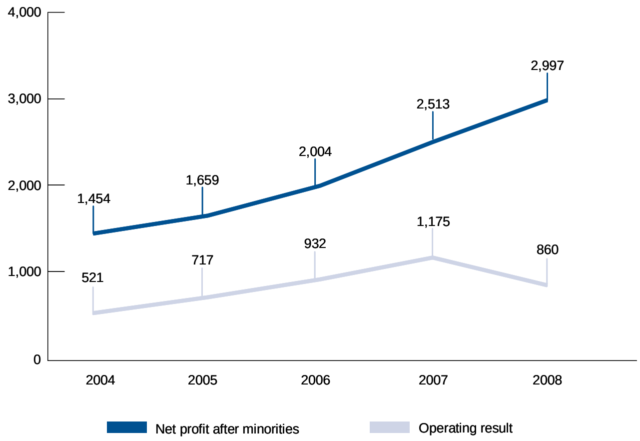
Due to the significant rise of net interest income (+24.5% to EUR 4,913.1 million) and despite the decline in trading result (-67.3% to EUR 114.7 million), **operating income** increased by 13.7% in 2008 to EUR 6,998.9 million. **Administrative expenses** increased by 9.9% to EUR 4,001.9 million.

**Operating income and operating expenses in EUR million**




**Operating result** was up by 19.3% to EUR 2,997.0 million.

**Operating result and net profit after minorities in EUR million**

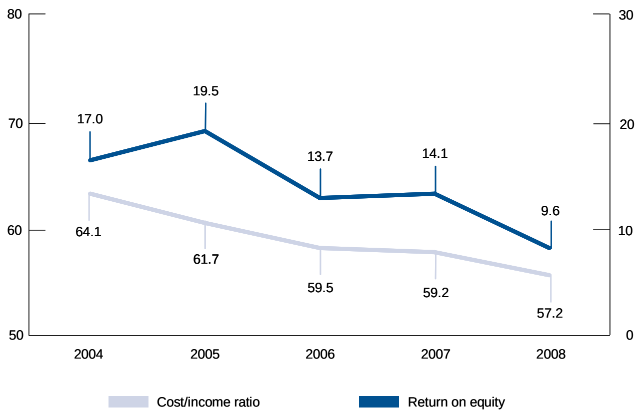



The **cost/income ratio** (general administrative expenses as a percentage of operating income) improved to 57.2% (full year 2007: 59.2% after restatement due to IFRS 5).

**Cash earnings per share** (i.e. after linear depreciation of the customer base) were EUR 2.89 as of 31 December 2008 (reported value EUR 2.74). The comparable figure in the previous year was EUR 3.92 (reported value EUR 3.76).

The **cash return on equity** (i.e. after the linear depreciation of the customer base), declined from 14.6% (reported value 14.1%) at the end of 2007 to 10.1% (reported value 9.6%) in 2008.

## Key profitability ratios in %




**Total assets** increased only slightly and reached EUR 201.4 billion as of 31 December 2008 (+0.5%); adjusting for the impact of the sale of the insurance company the increase would have been a moderate 4.7%.

The **solvency ratio** based on credit risk declined slightly from 10.5% to 10.1% as of 31 December 2008 as a result of the 10.7% growth in risk-weighted assets (RWA). Therefore, it continued to be comfortably above the statutory minimum requirement of 8.0%. The **Tier 1 ratio**, based on credit risk, amounted to 7.2% as of 31 December 2008.

### Dividend

For the 2008 financial year the management board will propose to the annual general meeting a dividend of EUR 0.65 per share (2007: EUR 0.75 per share).

### Outlook

The past months have seen a slowdown in global economic activity that is unprecedented in speed and scale. The ripple effects of these developments have clearly been felt across the world, with continuing downward revisions to both macroeconomic and company forecasts. Erste Group operates in a region that is presently regarded as being particularly vulnerable. Whereas we recognise the concerns regarding the sovereign and financial services industry risk in the CEE region, we also see strong competitive advantages in our region which serve to mitigate the macroeconomic risks. Erste Group's markets benefit from substantially lower public and private sector debt ratios than most Western economies, a higher degree of labour market flexibility, investor-friendly tax regimes and ongoing EU integration. These key competitive advantages form a solid basis for continued strong profitability in the region over the medium and long term.

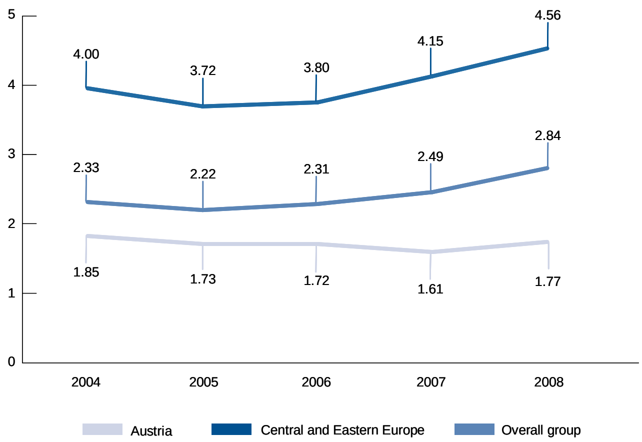
Based on our sustainable retail business model, our strong market position, our conservative lending policies and our strong liquidity in all local currencies, we believe we are in control not only of our cost base but also of a significant part of our earnings stream, forming the basis for a very solid operating performance. However, despite these positive factors, given the current uncertain economic outlook, it is difficult to issue detailed short term business forecasts at this time.

## Analysis of performance

### Net interest income

Despite slowing credit demand in the last months of 2008, **net interest income** increased by 24.5% compared to the previous year, from EUR 3,945.8 million to EUR 4,913.1 million. All business segments contributed to the good performance of net interest income.

## Net interest margin in %



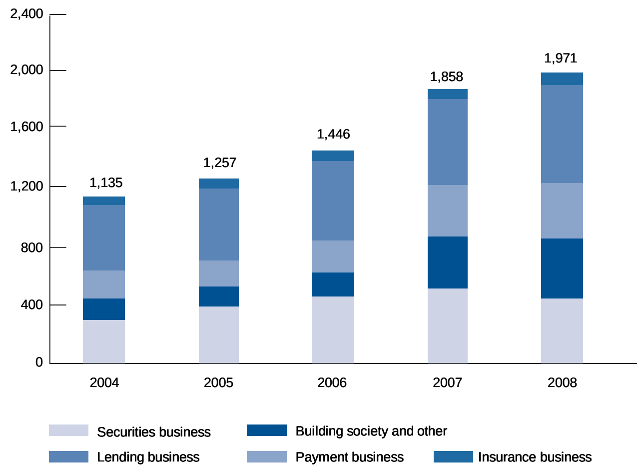

The net interest margin (net interest income as a percentage of average interest-bearing assets) rose from 2.49% in 2007 to 2.84% in 2008. Net interest margin in Central and Eastern Europe rose from 4.1% to 4.6 % while in the Austrian business it went up from 1.6% to 1.8%.

### Net fee and commission income

In 2008 **net fee and commission income** increased by 6.1%, from EUR 1,857.9 million to EUR 1,971.1 million.

In particular, a significant rise was shown in payment transfers (+15.3% to EUR 855.2 million) – supported by the card business, which rose by 29.2% to EUR 196.7 million. Furthermore, lending business (+8.4% to EUR 375.5 million) and insurance brokerage (+49.4% to EUR 89.2 million) contributed significantly to this positive result. As expected, the weaker stock markets and declining fund volumes led to a significant decline of the securities business overall (-12.8% to EUR 451.3 million) – particularly in the Asset Management and fund business.

### Net fee and commission income, structure and trend in EUR million



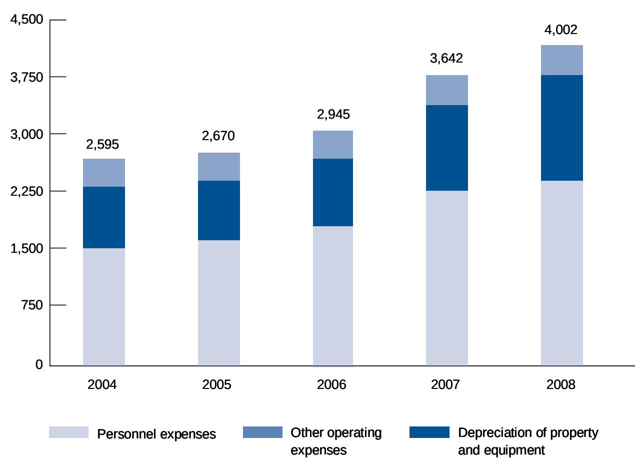

## Net trading result

**Net trading result** sharply declined by 67.3% from EUR 351.1 million in 2007 to EUR 114.7 million in 2008, mainly due to the continuously weak securities business (EUR -141.1 million in 2008 compared to EUR 102.1 million in 2007). This mainly includes valuation losses for securities in the trading book as a result of volatile markets.

## General and administrative expenses

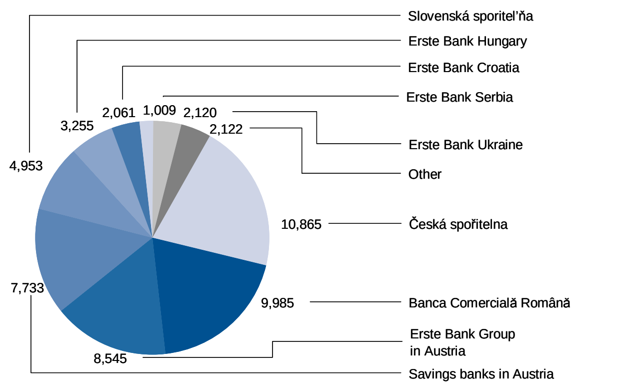
**General and administrative expenses** increased by a moderate 9.9% from EUR 3,642.1 million to EUR 4,001.9 million. Adjusted for the currency movements, the rise was 8.9%. Around two percentage points of the increase are attributable to the expansion in the scope of consolidation since October 2007 (six additional savings banks joined the cross-guarantee system (Haftungsverbund).

### General administrative expenses, structure and trend, in EUR million




**Personnel expenses** rose by only 5.7% (currency-adjusted 5.5%) from EUR 2,189.3 million to EUR 2,313.8 million. This was due in part to the selective expansion of the branch network, as well as to legally required and market-related salary adjustments in several CEE countries. In contrast, the decline in performance-related salaries in the 4th quarter and lower restructuring costs in Romania had a positive effect on personnel expenses.

### Headcount at 31 December 2008




As of December 2008 the Erste Group employed a total of 52,648 people (31 December 2007: 52,442 employees).

The headcount in Austria was primarily influenced by the consolidation of four additional savings banks in the cross-guarantee system (Haftungsverbund) in 2008 (+407 employees) and by the reorganisation of Erste Group.

In 2008, **other administrative expenses** increased by 22.7%, from EUR 1,070.5 million to EUR 1,313.1 million. Among other factors, this was due to costs relating to the conversion of the core banking system and the introduction of the euro in Slovakia, as well as the expansion of the branch network in Romania and Ukraine. There was an above-average rise in IT costs (+27.3% to EUR 311.0 million) as well as in expenses related to the reorganisation of Erste Group and the implementation of group projects.

Continuing the trend of the previous years, the **depreciation** of fixed assets also declined slightly in 2008 (-1.9% from EUR 382.3 million to EUR 375.0 million).

Restructuring and transformation costs at BCR were substantially lower (EUR 22.5 million) in 2008 compared to EUR 68.2 million in the previous year.

## Operating result

**Operating income** rose by 13.7% from EUR 6,154.8 million to EUR 6,998.9 million, while **general administrative expenses** went up by 9.9% from EUR 3,642.1 million to EUR 4,001.9 million. As a result, **operating result** improved by 19.3% in 2008 from EUR 2,512.7 million to EUR 2,996.9 million.

## Risk provisions

On balance, this line item increased considerably, by 135.6% from EUR 454.7 million to EUR 1,071.4 million due to the impact of allocation and release of provisions for the lending business, costs from writing off loans and income from the repayment of loans already written off. These additional **risk provisions** were made as a result of the conservative provisioning strategy against the background of deteriorating macroeconomic conditions and the associated anticipated rise in credit defaults. More than 50% of the increase came from the Austrian savings banks and the Group Large Corporate and Investment banking (GCIB) segment, both of which recorded very low risk costs in 2007. The risk costs relating to average customer advances in 2008 amounted to 88 basis points.

## Other operating result

**Other operating result** worsened from EUR -169.3 million to EUR -778.8 million. In addition to the write-down of goodwill in the amount of EUR 566.8 million (for Serbia, Ukraine and Romania), this item includes linear amortisation of intangible assets (customer base) in the amount of EUR 76.9 million, as well as expenses for payments into deposit guarantee systems in Central and Eastern Europe.

## Results from financial assets

The overall result from all categories of financial assets deteriorated significantly. Whereas in 2007 – in an already difficult market environment – a slightly positive total result of EUR 3.9 million was posted, the balance as of 31 December 2008 was distinctly negative at EUR -570.6 million. This was mainly due to revaluation requirements for structured products in the fair value portfolio (EUR 158.4 million) and impairments of bonds held in the AfS portfolio or HtM portfolio (particularly Icelandic banks and the Lehman Brothers-related).

On 31 December 2008 the market value of the Erste Group ABS/CDO portfolio, including that of the savings banks, amounted to around EUR 2.0 billion, down from EUR 3.4 billion at the end of 2007. In the fourth quarter of 2008, the fair value portfolio saw a revaluation with an overall impact on the income statement to the effect of EUR -92.2 million (after tax and minorities EUR -73.8 million). For the full year 2008 the impact amounted to EUR -158.4 million (after tax and minorities EUR -126.7 million). In the available for sale portfolio, mark-to-market revaluations in the fourth quarter of 2008 resulted in a decline of EUR 381.0 million (full year 2008: EUR -548.6 million), booked against equity. As there was no deterioration in the performance of the underlying assets, the quality of the overall portfolio is still good.

## Profits from discontinued operations net of tax

This item comprises not only net profit from the insurance business until its sale but also the gain on disposal from the sale of the insurance business and the applicable taxes.

The result from the insurance business was, at about EUR 8.0 million as of 31 December 2008, far below that of the same period in the previous year (EUR 35.0 million). This was mainly due to weaker results from financial investments in light of the difficult financial market situation. Net profit from the sale of the insurance business amounted to EUR 630.8 million after taxes and before minorities.

## Pre-tax profit and net profit after minority interest

As a result of the write-down of goodwill and valuation losses, as well as impairments of financial assets, **pre-tax profit in the continuing business operations** declined by 69.6%, from EUR 1,892.6 million to EUR 576.2 million.

**Net profit after minority interests** declined by 26.8% from EUR 1,174.7 million to EUR 859.6 million.

## Tax situation

In accordance with current group taxation regulations, the majority of the most important domestic subsidiaries (especially s Bausparkasse, Immorent, Erste-Sparinvest KAG, und Salzburger Sparkasse) constitute a group of companies with Erste Group Bank AG for tax purposes under section 9 of the Austrian Corporation Tax Act and are thus subject to taxation as a single entity.

For 2008 this profit pool incurred no current tax expense for Austrian corporate income tax. This was mainly attributable to high non-taxable dividend income. The amounts reported under taxes on income thus relate primarily to foreign income-based taxes, deferred tax assets and liabilities recognised under IFRS, as well as tax payable by smaller Austrian subsidiaries and various Haftungsverbund savings banks.

In 2008 the reported total income tax expense amounted to EUR 177.3 Mio (2007: EUR 371.0 Mio).

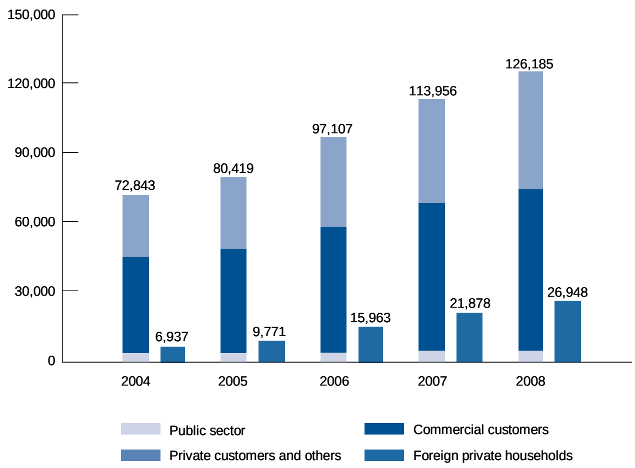
The tax rate increased from 19.6% in 2007 to 30.8% in 2008.

## Balance sheet development

**Total assets** of Erste Group increased by 0.5% from EUR 200.5 billion at the end of 2007 to EUR 201.4 billion at the end of December 2008. Approximately EUR 3.0 billion of this increase relates to four savings banks which joined the Haftungsverbund at the beginning of 2008.

**Loans and advances to credit institutions** fell by 4.0% from EUR 14.9 billion to EUR 14.3 billion. **Loans and advances to customers** increased by 10.7% from EUR 114.0 billion to EUR 126.2 billion.

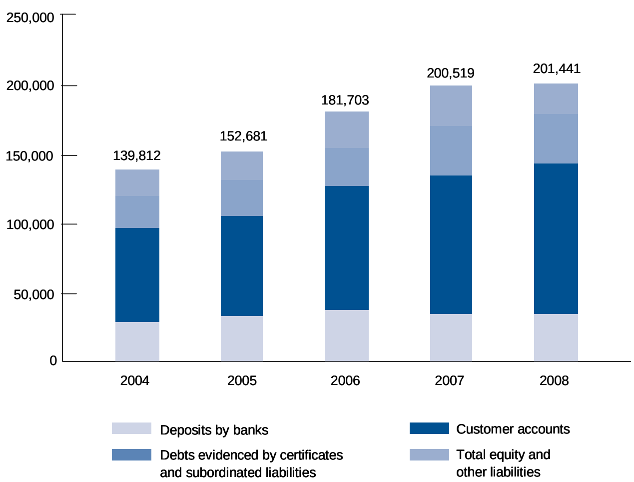
### Loans and advances to customers, structure and trend in EUR million




Due to new allocations as a result of credit growth and the difficult credit environment, the level of **risk provisions** increased from EUR 3.3 billion to EUR 3.8 billion. The ratio of non-performing loans (NPL) to total exposure increased to 2.9% in the fourth quarter (2.5% in Q3 2008).

**Securities investments** in the various categories of financial assets declined – not least due to the current market situation and principal repayments – by 8.8 % from EUR 37.5 billion at the end of 2007 to EUR 34.2 billion.

### Balance sheet structure/liabilities and total equity in EUR million




**Customer deposits** rose significantly by 9.2% from EUR 100.1 billion at the end of 2007 to EUR 109.3 billion. The loan to deposit ratio stood at 115.4% as of 31 December 2008 reflecting the strength of the Group's retail strategy and its ability to support loan growth with rising deposits.

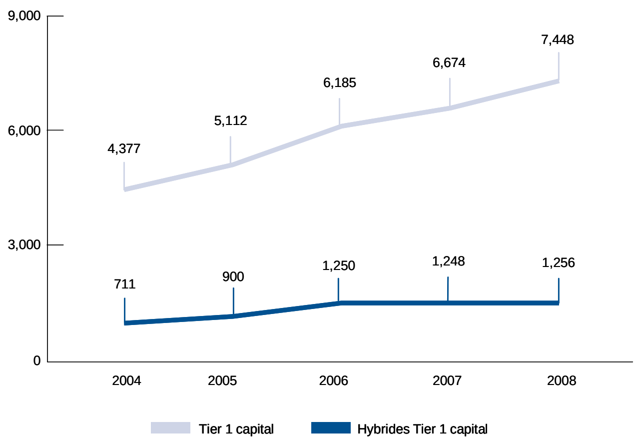
The 1.9% decline in **debt securities in issue** from EUR 31.1 billion to EUR 30.5 billion resulted mainly from redemptions on certificates of deposit.

**Total equity** of Erste Group declined by 2.5% from EUR 11.4 billion to EUR 11.1 billion mainly driven by the negative impact of the AfS reserve and currency depreciation. The increase in the scope of consolidation by four additional savings banks had a corresponding increasing effect on minority interests.

**Risk-weighted assets (RWA)** rose from EUR 95.1 billion to EUR 103.7 billion in 2008, with the additional four savings banks making up around EUR 1.2 billion. **Total own funds** of Erste Group according to the Austrian Banking Act amounted to EUR 11.8 billion (31 December 2007 EUR 11.1 billion) as of 31 December 2008. The **coverage ratio** in relation to the statutory minimum requirement on this date (EUR 9.6 billion), was 123% (year-end 2007: 127%).

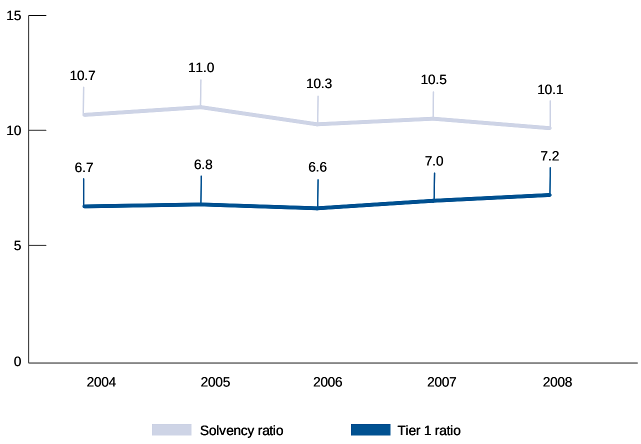
After deductions in accordance with the Austrian Banking Act, **tier 1 capital** stood at EUR 7.4 billion (year-end 2007: EUR 6.7 billion).

### Tier 1 capital acc. to ABA and hybrid Tier 1 capital in EUR million




The **tier 1 ratio** based on the credit risk (tier 1 capital after deductions in accordance with the Austrian Banking Act, in relation to the assessment basis for the credit risk pursuant to Article 22 section 2 Austrian Banking Act) equalled 7.2%. When adjusted for hybrid capital the tier 1 ratio results in a value of 6.0%; additionally adjusting for the regulatory capital requirements for market and operational risks the tier 1 ratio equalled 5.3%.

**Solvency and tier 1 capital ratio**
**in %**




The **solvency ratio** in respect of credit risk (total own funds less the non-credit risk capital requirements – especially settlement risks, operational risks and position risks in the trading book and foreign currency positions – as a percentage of the assessment base for credit risk pursuant to Article 22 section 2 of the Austrian Banking Act) was 10.1% (year-end 2007: 10.5%) as of 31 December 2008 and thus considerably above the statutory minimum requirement of 8.0%.

## RISK MANAGEMENT

The financial risks of Erste Group and the goals and methods of risk management are discussed in the risk report in the notes of the consolidated financial statements.

## RESEARCH AND DEVELOPMENT

Erste Group is not engaged in the area of research and development.

## CORPORATE SOCIAL RESPONSIBILITY

Corporate Social Responsibility (CSR) is a corporate philosophy that involves the clear goal of the sustainable creation and building of value. This aim can be achieved only when two criteria are fulfilled: We must consider the opportunities and risks arising from economic, environmental and social challenges; and we must address all relevant stakeholders, such as our customers, employees, investors and civil society.

### Customers

With Erste Group's products and services, we always strive to match the client's wishes and requirements as closely as possible.

### Ethical investing

In June 2008, Erste Group launched ESPA VINIS STOCK EUROPE EMERGING, the first sustainable equity fund for Eastern Europe. The fund invests in about 50 companies in the Central and Eastern Europe region that attach importance to socially and environmentally responsible business practices.

### Civil society

The idea of social responsibility has been integral to Erste Group from its very beginnings. It is this traditional calling that is also at the heart of "Die Zweite Wiener Vereins-Sparcasse" (Zweite Sparkasse), which marked its second anniversary in autumn 2008. Zweite Sparkasse provides access to basic financial services for people who for any number of reasons are no longer able to open a regular bank account. By making available an account without overdraft facilities, the goal is to help clients find their way back to an ordered existence. Zweite Sparkasse has already opened 4,300 accounts since its foundation. In partnership with credit counselling agencies and specialists from Caritas, it is operated on a volunteer basis by more than 400 employees of Erste Group. Now there are six branches of Zweite Sparkasse across Austria.

### Partnerships with charitable organisations

Erste Group and Caritas are linked by a long-established partnership that includes joint development work in Central and Eastern Europe. Through a Caritas campaign in 2008 Erste Group sponsored a "youth farm" in Bacova, Romania. Here street kids are able to start a new life. They have the opportunity to go to school, learn a trade and benefit from the stabilising effect of a steady and meaningful daily rhythm by working the farm on which they live.

### Arts and culture

In 2008 the social and cultural initiatives and activities of Erste Group continued to be delivered through "Kontakt – The Arts and Civil Society Program of Erste Group".

In addition to its web presence, Erste Group publishes "Report", a magazine covering the arts, sciences and society in Central and Eastern Europe. In 2008 the magazine received numerous awards.

An important part of Kontakt is the art collection of the same name owned by Erste Group. This singular collection is concerned with art production in Central, Eastern and South-eastern Europe and the associated contemporary art discourse and critical theory.

### Education

Together with Mobilkom, McKinsey, OMV, Vienna Insurance Group and Wolf Theiss, Erste Group took part in students4excellence. This programme's ambition is to bring the partners together early on with the top students from Austrian universities and to allow the students to network among themselves.

In 2008/2009, in collaboration with OMV and the Executive Academy at Vienna University of Economics and Business Administration, Erste Group for the second time conducted an MBA programme for junior managers from Romania.

In July, for the eighth year, "Danubia Summer University" was staged in cooperation with Wirtschaftsuniversität Wien (Vienna University of Economics and Business Administration). Sixty students from Austria, the Czech Republic, Slovakia, Hungary, Serbia, Croatia, Romania and Ukraine travelled to the countries where Erste Group operates.

Since 2006, Erste Group in conjunction with the Erste Foundation has supported the Balkan Case Challenge. This annual case study competition aims to strengthen the coordination between university education and business and to foster the exchange of knowledge and ideas between the best students from South-eastern Europe and Austria.

### Staff survey

In autumn 2007 a Group-wide employee survey was conducted, covering 55 entities of the Group in seven countries. The response rate was 55%. The analysis of the survey data was completed in 2008. It produced valuable insights that form the basis for a suite of follow-up actions.

With the help of these survey results, the first improvement measures were developed. The Group plans to build a clear and transparent performance management system and implement a best-practice culture. These two initiatives are to become the main pillars of the internal culture of Erste Group. In 2009 these two thrusts will be central to the Group's human resources activities.

### Work and family

For the third time now, both Erste Bank Oesterreich and Erste Group have been recognised with the full certificate of the Work and Family Audit from the Austrian Ministry of Health, Family and Youth.

Under the Affirmative Action for Women initiative of the Austrian Ministry of Economics and Labour, the package of work/life balance measures taken by Erste Bank Oesterreich was recognised as one of the ten best projects promoting better conditions for women. This programme aims to improve reintegration into the workplace after periods of maternal leave and to enhance women's access to jobs and to promotions.

### Health

In 2008 all employees in Austria were offered a preventive medical check-up including a spine examination; 40% of staff made use of this opportunity. Also available to employees were melanoma screening and an eye and vision exam. All preventive medical care was performed in the workplace. In addition, staff had access to medical and psychological advice and treatment at the health centre of Erste Group. The centre also offers nutrition counselling and physiotherapy. Last year the health centre logged about 9,000 consultations.

### Staff development

In February 2008 the Group founded Erste University, one of the first corporate universities in Austria. Its goal is to further build up the technical excellence of the Group's staff.

The Group-wide initiative known as Group Talent Management was first introduced in 2006. This programme is designed for talented employees from any part of Erste Group that are willing to contribute and apply their knowledge across national borders. At the end of 2008, this allowed 23 managers and 40 promising individuals without management responsibility to be given individualised support and prepared for international career opportunities.

"Learning from Experience" was the guiding theme of a novel approach to management training. In 2008 a new form of management mentorship programme was developed that offers an alternative to conventional educational opportunities. In it, experienced managers pass on their knowledge and experience to other managerial staff. The resulting benefits are often mutual.

### Environment

In September 2008 the winning design was selected in the architectural competition for the new Group headquarters, the Erste Campus. The first basic specifications for the innovative project were determined, with the following key considerations:

- **Energy concept with ambitious conservation targets (setting of consumption limits, simulation of room temperatures, air humidity and quality, documentation of fresh air supply)**
- **Business case (life cycle cost, sustainability analysis)**
- **Emissions analysis (use of physical resources, recyclability of building materials)**
- **Quality assurance during construction**
- **Ergonomics**
- **Monitoring during operating phase**

With a view to environmental certification, the objective is to meet a low-energy building standard. Particular emphasis is being placed on adhering to the principles of sustainable construction. The primary energy requirement will therefore be well below the present average for office buildings. The design and execution will also incorporate the trends of modern forward-looking office building construction, such as flexibility, sustainability, mobility, electronic connectivity, ergonomics and design, safety and cost reduction.

In 2008 Erste Group engaged in intensive dialogue with NGOs and other representatives of civil society to discuss questions regarding the financing of the Mochovce nuclear generating station. Against the backdrop of Slovenská sporiteľňa's participation in an international consortium for the financing of energy group Slovenské elektrárne, criticism was voiced to the effect that through this consortium, Erste Group was helping to finance atomic energy in Eastern Europe. For Erste Group this was the first controversy of its kind, and the bank responded swiftly. An environmental assessment was commissioned and consultations with experts from the scientific community were stepped up to gain full insight into the complex issue and include all relevant stakeholders. Ultimately, in view of unmet environmental requirements, a legally binding agreement was reached with the energy company that absolutely no monies from Slovenská sporiteľňa are to be used for the financing of the high-risk reactors 3 and 4 at the Mochovce power plant. Erste Group is convinced that this decision has contributed to the much-needed dialogue on the necessary security standards for nuclear power stations.

### Preview of environmental activities

In 2009 as well, the environment will be an important topic for Erste Group. The following measures are planned:

- **Construction of the "eco bank branch" in collaboration with the Wieselburg Campus of Wiener Neustadt University of Applied Sciences, and expansion of the concept to additional branches**
- **Driver training for a reduced environmental and economic impact (fuel-saving techniques)**
- **Expansion of the fleet by further natural-gas-powered vehicles**
- **Installation of additional secure bicycle parking in central locations**
- **Analysis of mobility behaviour**
- **Continuing participation in the ÖkoProfit project**

## INFORMATION ACCORDING TO SECTION 243A AUSTRIAN COMMERCIAL CODE

At 31 December 2008, DIE ERSTE österreichische Spar-Casse Privatstiftung, a foundation, held a direct equity interest of approximately 31.12% in Erste Group Bank AG. The foundation is Erste Group Bank AG's largest shareholder.

A provision relating to the appointment and withdrawal of members of the management board and supervisory board that does not follow directly from the legislation is clause 15.4 of the articles of association. Under this clause, the withdrawal of supervisory board members requires a majority of three-quarters of valid votes cast and a majority of three-quarters of the subscribed capital represented at the meeting considering the resolution.

The articles of association contain no restrictions in respect of voting rights or the transfer of shares. To the management board's knowledge, no restrictions are provided by agreements between shareholders. Only the share ownership and share option plans (MSOP and ESOP) involve a one-year holding period.

A provision not established directly by legislation, and which relates to the process of changing the articles of association, is described in clause 19.9 of the articles of association to the extent that changes to the articles of association which do not change the business purpose of Erste Group Bank AG may be adopted by the annual general meeting by a simple majority of votes cast and a simple majority of the subscribed capital represented at the meeting considering the resolution. Provisions of the articles that require larger majorities for the passing of resolutions can themselves only be changed by the same respective larger majorities. Furthermore, clause 19.9 can only be changed with a majority of three-quarters of votes cast and with a majority of three-quarters of the subscribed capital represented at the meeting considering the resolution.

The following are significant agreements (and their effects) to which Erste Group Bank AG is a party and which become effective, change, or end in the event of a change of control resulting from a takeover offer:

In the event of a takeover bid, the share option plan of Erste Group Bank AG sets out the following special provisions (section 17 of the share option plan):

(1) Should a takeover offer for the shares of Erste Group Bank AG be announced to the public, all options that have been granted to the management board members and eligible managers by that time but have not yet vested will immediately vest for those management board members and eligible managers who fulfil the personal requirements for participation.

(2) In this case the vesting date, the end of the exercise window and the value date will be determined by the management board of Erste Group Bank AG. They are to be chosen such that the exercise of the options and sale of the shares can be effected during the takeover offer process.

(3) In the event of a takeover offer, no "key personnel" (i.e., no persons outside the group of management board members and managers referred to above) will be selected as recipients of options and no options will be granted to key personnel.

(4) All options that have vested may be exercised by the eligible recipient from the day following the vesting date; the provisions of section 11(1)(2) (minimum holding period for options) and section 12(1) sentence 1 (exercise window) do not apply. The shares obtained may be offered for sale to the prospective acquiring entity in the takeover bid; section 16 (holding period) does not apply.

(5) In addition, for all shares previously purchased that are still subject to a holding period (section 16), this holding period ends when the takeover bid is announced to the public.

(6) Should the takeover offer be withdrawn without the presence of a rival takeover offer, the options vested under subsection 1 above that are not yet exercised cannot be exercised for a period of one year from the publication of the withdrawal of the takeover offer, while shares already purchased through options vested under subsection 1 become subject to a holding period of one year from the vesting date. However, holding periods that have ended pursuant to subsection 5 above are not revived.

The cross-guarantee system's (Haftungsverbund) agreement in principle allows the early termination of the agreement for material reason. Material reason allowing the respective other contracting parties to cancel the agreement is given if the ownership structure of a party to the contract changes in such a way – particularly by transfer or capital increase – that one or more third parties from outside the savings bank sector directly and/or indirectly gain a majority of the equity capital or voting power of the contracting party.

The cross-guarantee system's (Haftungsverbund) agreement in principle and supplementary agreement expire if, and as soon as, an entity that is not a member of the savings bank sector association acquires more than 25% of the voting power or equity capital of Erste Group Bank AG in any manner whatsoever and a member savings bank notifies its withdrawal from the cross-guarantee system's (Haftungsverbund) to the cross-guarantee system's (Haftungsverbund) steering company and to Erste Group Bank AG by registered mail within twelve weeks from the change of control.

### Directors and officers insurance

#### Changes of control:

(1) In the event that any of the following transactions or processes (each constituting a "change of control") occur during the term of the policy in respect of the insured:

a) the insured ceases to exist as a result of merger or consolidation, unless the merger or consolidation occurs between two insured parties,

b) another company, person or group of companies or persons acting in concert that is/are not insured parties, acquire more than 50% of the insured's outstanding equity or more than 50% of its voting power (this gives rise to the right to control the voting power represented by the shares, and the right to appoint the management board members of the insured), then the insurance cover under this policy remains in full force and effect for claims relating to unlawful acts committed or alleged to have been committed before this change of control took effect. However, no insurance cover is afforded for claims relating to unlawful acts committed or allegedly committed after that time (unless the insured and insurer agree otherwise). The premium for this insurance cover is deemed to be completely earned.

(2) In the event that, during the life of the policy, a subsidiary ceases to be a subsidiary, the insurance cover under this policy shall remain in full force and effect for that entity until the end of the policy period or (if applicable) until the end of the extended discovery period, but only in respect of claims brought against an insured in relation to unlawful acts committed or alleged to have been committed by the insured during the existence of this entity as a subsidiary. No insurance cover is afforded for claims brought against an insured in relation to unlawful acts committed or allegedly committed after this entity ceased to exist.

In respect of the repurchasing of shares, the management board members have the following powers not established directly by the law:

By a resolution of the annual general meeting on 6 May 2008,

(1) Erste Group Bank AG is authorised to purchase its own shares (treasury shares) under section 65(1)(7) Austrian Stock Corporation Act for the purpose of securities trading; at the end of each day the balance of shares acquired for this purpose must not exceed 5% of Erste Group Bank AG's total share capital. The price paid per share must be not less than EUR 10 and not more than EUR 100. This authorisation is effective for the period of 18 months ending 5 November 2009;

(2) the management board is authorised to purchase, subject to the approval of the supervisory board, Erste Group Bank AG's own shares under section 65(1)(8) Austrian Stock Corporation Act; the total of the shares purchased under this authorisation and under section 65(1)(1), 65(1)(4) and 65(1)(7) of the Act must not exceed 10% of Erste Group Bank AG's total share capital. The price paid per share must be not less than EUR 10 and not more than EUR 100. Erste Group Bank AG is required to publish the relevant management board decision as well as publicly announce the resulting repurchase programme and its duration. Erste Group Bank AG's own shares purchased under these provisions may, subject to the approval of the supervisory board, be disposed of in a manner other than via the stock market or than by public offering; for instance, they may be used as compensation when acquiring, or to finance the acquisition of, companies, partial ownership, or other interests in companies in Austria or abroad. The management board is also empowered to retire Erste Group Bank AG's own shares without a further resolution to this effect by the annual general meeting. This authorisation is effective for the period of 18 months ending 5 November 2009.

All acquisitions and disposals made were consistent with the authorisation granted by the annual general meeting.

## EVENTS AFTER THE BALANCE SHEET DATE

Details regarding events after the balance sheet date are given in Note 52 of consolidated financial statements.

Vienna, 10 March 2009

**The Management Board**

**Andreas Treichl**
Chairman

**Franz Hochstrasser**.
Vice Chairman

**Manfred Wimmer**
Member

**Bernhard Spalt**
Member

**Herbert Juranek**
Member

# Segments

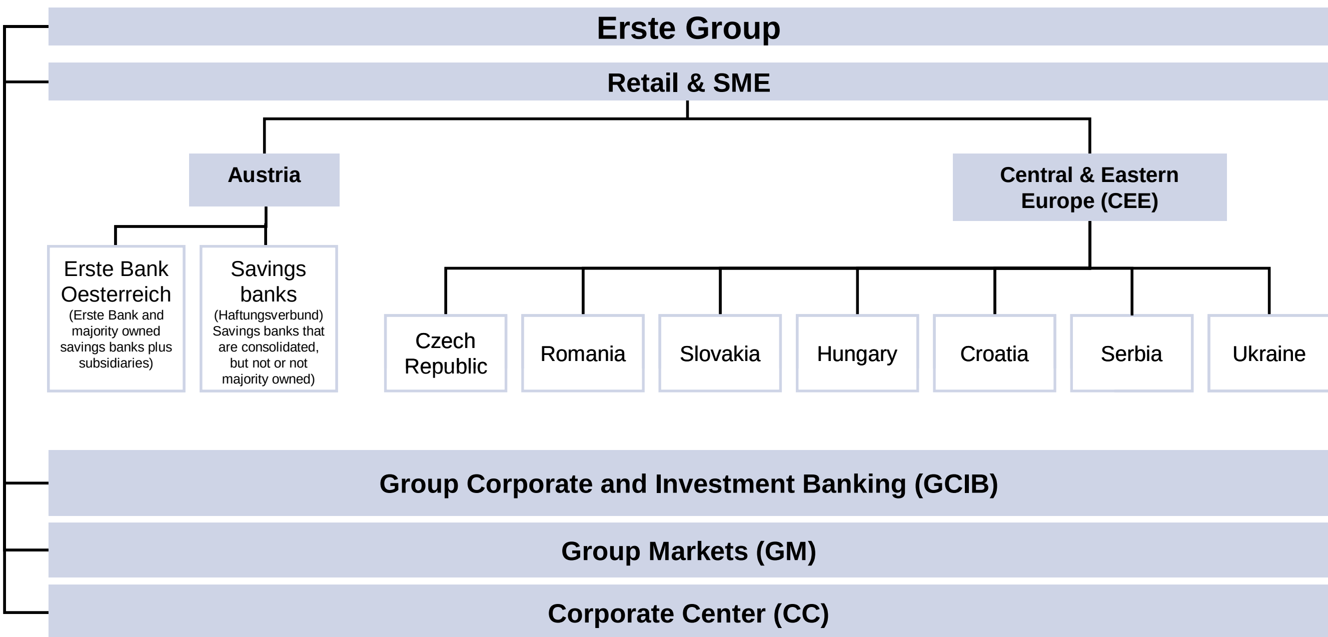
## INTRODUCTION

Segment reporting of Erste Group follows the IFRS presentation and measurement requirements. There are four main segments: Retail & SME, Group Corporate & Investment Banking, Group Markets and Corporate Center. The Retail & SME segment is subdivided into the individual regional businesses focusing on Erste's local customer business. To improve transparency and to be consistent with current reporting, the Austrian segment is split into the new Erste Bank Oesterreich (including local subsidiaries) and the savings banks consolidated under the cross guarantee system In Central and Eastern Europe, all the subsidiaries continue to be reported individually.

The Group Corporate & Investment Banking segment includes all large corporate customers in Erste Group's region with a GDP-weighted turnover of more than EUR 175 million. The Group Markets segment includes divisionalised business lines like Group Treasury and Debt Capital Markets. The Corporate Center segment contains Group services such as marketing, organisation and information technology, as well as other departments supporting the execution of group strategy. In addition consolidation items and selected non-operating items are allocated to this segment. In the new structure Group Balance Sheet Management is now allocated to the Corporate Center. The result of local asset/liability management units remains with the respective local divisions.

In the new reporting structure, the segments are aligned with Erste Group's new organisational setup. This leads to a somewhat lower group contribution from the CEE subsidiaries as part of their local results are now allocated to the two holding business divisions, GCIB and GM. At the same time the new structure will help to improve transparency as the subsidiaries' results will fully reflect their core business activities and thus allow better comparison between the regions.

### Segment reporting structure at Erste Group



# Retail & SME

The Retail & SME segment includes business with private individuals and small and medium enterprises in Austria and Central and Eastern Europe. These regions are further subdivided into the savings banks and Erste Bank Oesterreich in Austria and the activities in the transformation economies Czech Republic, Romania, Slovakia, Hungary, Croatia, Serbia and Ukraine.

## AUSTRIA

### Economic review

In 2008 Austria recorded real GDP growth of 1.8%, down from 3.1% in the previous year, but still ahead of eurozone growth of 0.8%. In line with international developments, the year was a story of two tales: while in the first half growth was robust and inflationary concerns were at the forefront, the second half of the year, and in particular the fourth quarter, was characterised by a sharp slowdown in economic activity; annualised real GDP growth advanced by only 0.5% of the final quarter of 2008. This was mainly due to a slowdown in export growth – the same sector that used to be the major growth driver in the past. Accordingly, domestic demand was the main growth contributor. Overall, Austria stayed among the richest countries in the world with GDP/capita averaging EUR 34,000.

Thanks to the still satisfactory economic development in 2008, the unemployment rate reached a multi-year-low of 3.5% and remained significantly lower than the EU average as the crisis had yet to impact the domestic labour market. Consumer prices surged in the first half of the year on the back of rampant commodity prices, but came back as quickly as they rose to post only a moderate increase of 3.2% for the year. Real estate prices continued the tradition of only rising by an equally moderate 2%, in line with the annual growth rates since 2000. This is a reflection of the low levels of home ownership in Austria as well as an affordable rental market, where many players are not for profit, entities such as state-subsidised housing cooperatives or councils.

On the back of diminished inflationary pressures and the deteriorating economic outlook, the European Central Bank cut its benchmark interest rate from 3.75% to 2.50% in 2008. Fiscal policy also moved centre stage in fighting the potential impact of a slowing economy: the government adopted various measures such as income tax cuts and higher transfer payments to families in order to boost disposable incomes. Combined with gradually slowing tax revenues, this translated into a higher than expected but still very manageable budget deficit of 0.5%.

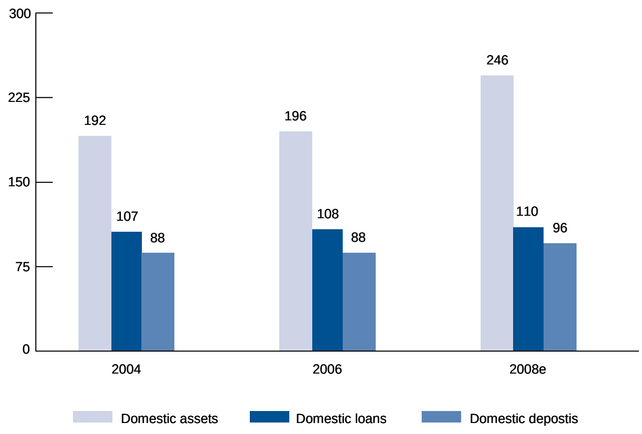
| Key economic indicators – Austria | 2005 | 2006 | 2007 | 2008e |
|---|---|---|---|---|
| Population (ave, million) | 8.2 | 8.3 | 8.3 | 8.3 |
| GDP (nominal, EUR billion) | 245.3 | 257.9 | 270.8 | 282.0 |
| GDP/capita (in EUR thousand) | 28.9 | 30.0 | 32.6 | 33.8 |
| Real GDP growth (in %) | 2.0 | 3.3 | 3.1 | 1.8 |
| Private consumption growth (in %) | 2.0 | 2.1 | 1.0 | 1.0 |
| Exports (share of GDP in %) | 38.9 | 39.4 | 41.2 | 41.0 |
| Imports (share of GDP in %) | 38.8 | 38.2 | 40.7 | 40.1 |
| Unemployment (Eurostat definition, in %) | 5.2 | 4.7 | 4.4 | 3.5 |
| Consumer price inflation (ave, in %) | 2.3 | 1.5 | 2.2 | 3.2 |
| Short term interest rate (3 months eop, in %) | 2.5 | 3.7 | 4.7 | 3.1 |
| EUR FX rate (ave) | 1.0 | 1.0 | 1.0 | 1.0 |
| EUR FX rate (eop) | 1.0 | 1.0 | 1.0 | 1.0 |
| Current account balance (share of GDP, in %) | 2.0 | 2.4 | 3.2 | 3.1 |
| General government balance (share of GDP, in %) | -1.5 | -1.5 | -0.4 | -0.5 |

Source: Erste Group.

### Market review

The Austrian domestic banking market has the characteristics of a developed Western market: high penetration figures, high degree of competitiveness, and low profit margins. Although the Austrian market cannot compete with CEE markets in terms of long-term growth potential it still offers niche opportunities especially in the fields of mortgage business and wealth management. In wealth management the focus shifted from investment funds to more conservative investments such as savings and life insurance while the low rate of home ownership is a clear indication of the potential of the mortgage segment.

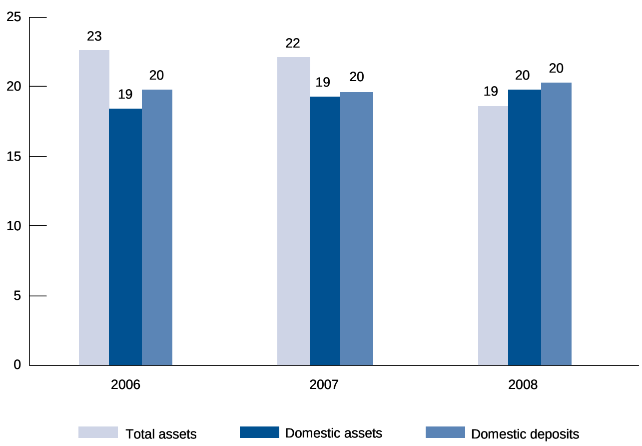
**Financial intermediation – Austria (in % of GDP)**




Source: Oesterreichische Nationalbank, Erste Group.

In October 2008 the Austrian Federal Government reacted to the spreading of the global financial crisis by introducing a package of measures worth EUR 100 billion with a view to strengthening the confidence in the Austrian money and financial markets. The banking package has three pillars: firstly, EUR 15 billion has been allocated to capital measures with the aim of bolstering core capital ratios of domestic banks to between 9 and 10%; secondly, EUR 75 billion was set aside for a government guaranteed bond issuance programme that gives domestic banks secure access to adequate liquidity in return for an annual fee of 90 basis points (of the outstanding volume); thirdly, deposits of private individuals enjoy full protection under the deposit protection scheme until the end of 2009 and up to EUR 100,000 per account thereafter.

**Market shares – Austria (in %)**




Source: Oesterreichische Nationalbank, Erste Group.

2008 was also the year in which FX lending came to a halt in Austria, following a recommendation by the Financial Market Supervisory Authority in October. Due to the interest rate differential between the Swiss Franc and the euro, CHF-denominated loans were very popular in Austria, especially in housing finance among private individuals: at their height they made up 20% of all Austrian non-government, non-bank debt. By 2008 this ratio had already fallen to below 18%. As no or very limited – for those who have CHF cash flows – CHF loans are disbursed to private individuals anymore, the significance of this segment is expected to decline sharply in 2009.

In 2008 Erste Bank Oesterreich and the savings banks maintained their position as one of the leading players in Austria: they achieved stable market shares of 19-20% in loans and deposits alike and served three million customers in Austria in their 1,060 branches. The significant decline in combined total asset market share was due to the strong expansion of interbank lending business in the Austrian banking system, but outside of the savings bank sector, in the second half of 2008. This is also the main reason for the jump in domestic asset penetration to 246% – way beyond its stable historic range of 190-200% of GDP. The rise in domestic deposit penetration resulted from a combination of high interest rates until autumn in the eurozone in the period under review as well as a flight to safety.

## SAVINGS BANKS

**Business profile.** In 2008 the Savings Banks segment comprised 49 Austrian savings banks (with 786 branches) that were consolidated as a result of their membership in the Haftungsverbund (the cross-guarantee system) and in which Erste Group held little or no equity interest. Savings banks that are majority-owned by Erste Bank Oesterreich, such as Salzburger Sparkasse, Tiroler Sparkasse and Sparkasse Hainburg-Bruck-Neusiedl, are included in the Erste Bank Oesterreich segment.

In October 2007 the approval of the first business combinations with the savings banks by the Austrian cartel authorities led to the establishment of the "Haftungsverbund Neu", the new cross-guarantee system. In May 2008 the Austrian Federal Competition Authority approved the business combination of Erste Group with Steiermärkische Sparkasse under the last such joint application by Erste Group and a savings bank for a business combination. In total, 54 of the 55 Austrian savings banks are now united by this affiliation. Only Sparkasse Oberösterreich has not joined the cross-guarantee system. However, as the "Haftungsverbund Alt" (the old cross-guarantee system) is still effective, Sparkasse Oberösterreich, too, is included in the Savings Banks segment.

### Business review

**Strategy.** The aim of the cooperation between Erste Bank Oesterreich and the savings banks is to work together on all significant business tasks. This includes projects related to statutory requirements, cooperation in the development of management information and control as well as organisational projects and information technology issues. On the strong foundation provided by the new cross-guarantee system, the potential of the close partnership between Erste Bank Oesterreich and the savings banks can be fully utilised and will in the future also be leveraged in product development, distribution and joint marketing. As a result, not only can the safety of deposits now be guaranteed even after the expiration of the increased government deposit insurance, but the arrangement ensures the lasting availability – even outside densely populated urban areas – of a complete product offering with all the financial services that customers need.

## Highlights in 2008

**Customer growth in the savings bank sector.** Despite the declining number of banking relationships per capita in Austria, the savings banks and Erste Bank Oesterreich were able to acquire 70,000 new customers last year. This was achieved by numerous joint marketing activities, such as the Austria-wide sale of "Happy Saver" packages through the retail stores of coffee chain Tchibo/Eduscho. The packages contained store coupons redeemable for merchandise at Tchibo/Eduscho, along with a coupon for opening a term deposit savings account with a highly competitive interest rate at the savings banks or Erste Bank Oesterreich.

**Common savings bank strategy.** Together with Erste Bank Oesterreich, the savings banks have adopted a unified strategy in the small and medium enterprise (SME) business that ideally combines the regional expertise of the savings banks with the know-how of Erste Bank Oesterreich for the benefit of customers. The shared goal is to become the market leader in the SME sector.

**Joint new training and development framework for managers.** In 2008 the savings banks and Erste Bank Oesterreich have redesigned their management training and development activities. The key principles in this regard are:

- **Clear alignment of the training and development offering with the strategic goals of the savings bank sector**
- **Career-long, coordinated training and development offering that addresses everyone, from staff with management qualities all the way to top management**
- **Decentralisation rather than rigid centralised control, to customise the offering to the greatest possible extent; support for every manager through coaching and mentoring**
- **Positioning savings banks as an attractive employer and placing strong emphasis on fostering staff retention**

The savings banks and Erste Bank Oesterreich want their management staff to be not only the best possible technical managers with the right expert knowledge but also to be effective staff developers in their own right who can transmit corporate strategy and culture to their staff.

**Cooperation with Vienna Insurance Group.** Spring 2008 saw the launch of a broader partnership between Erste Group and Vienna Insurance Group (VIG). Both are leading financial institutions in Central and Eastern Europe and have a wealth of experience and know-how in the development of flourishing business activities in this region. This can benefit Austria as well. Emphasizing the collaboration, the insurance group s Versicherung and its CEE subsidiaries changed hands and are now majority-owned by VIG. As a result, the customers of Erste Bank Oesterreich and the savings banks gain access to a much more attractive portfolio of insurance products, and the Austrian entities of VIG (Wiener Städtische and Donau) will sell financial services of the savings bank sector and refer business to them. A close working relationship with Donau-Versicherung had already existed for some time, particularly in those lines of business not covered by s Versicherung. The intention now is to capitalise on the high potential in life insurance, for which market penetration in Austria is still significantly below the EU average.

## Financial review

| in EUR million | 2008 | 2007 |
|---|---|---|
| Pre-tax profit | 20.5 | 320.4 |
| Net profit after minority interests | -26.1 | 20.0 |
| Operating result | 452.2 | 433.9 |
| Cost/income ratio | 67.0% | 65.6% |
| Return on equity | -12.0% | 8.8% |
| Customer loans | 36,188 | 31,340 |
| Customer deposits | 31,805 | 28,436 |

As of the first quarter of 2008, six new savings banks joined the Haftungsverbund, affecting the comparability of results with the previous year. The 12.7% growth in net interest income, from EUR 864.4 million to EUR 974.1 million, was mainly due to the inclusion of the new savings banks. Net commission income reached EUR 381.9 million, exceeding last year's result by EUR 7.8 million, again significantly affected by the contribution from the new savings banks, without which, fees would have declined by EUR 13.8 million. Administrative expenses increased from EUR 828.3 million in the previous year to EUR 919.6 million (+11.0%). Excluding the new savings banks, however, this rise would only have been 3.2%. Despite higher costs and a declining trading result (from EUR 23.6 million in the previous year to EUR 15.8 million), the operating result reached 452.2 million, 4.2% above that of the previous year (EUR 433.9 million).

Risk provisions, which grew significantly to EUR 275.8 million, compared with EUR 96.2 million in the previous year, resulted, on the one hand, from a provision taken in relation with a savings banks merger, and, on the other hand, reflect a conservative risk policy. Valuation requirements for securities outside of the trading portfolio led to a significant decline in other result (by EUR 138.6 million, from EUR -17.3 million in the previous year to EUR -155.9 million, which ultimately resulted in a negative net profit after minorities of EUR 26.1 million. The cost/income ratio was at 67.0%.

### Credit risk

Total exposure of the Savings Banks segment amounted to EUR 46.9 billion (2007: EUR 42.2 billion) or 21.8% of Erste Group's total exposure. As a result of the economic developments, non-performing loans rose from EUR 2.3 billion to EUR 2.6 billion, while the NPL ratio remained almost unchanged at 5.6%. NPL coverage (excluding collateral) – at just shy of 53% – also remained at last year's level.

## ERSTE BANK OESTERREICH

**Business profile.** The Erste Bank Oesterreich segment includes Erste Bank Oesterreich and the three savings banks in which Erste Bank Oesterreich has a majority shareholding: Salzburger Sparkasse, Tiroler Sparkasse and Sparkasse Hainburg-Bruck-Neusiedl. A further part of this segment is the activity of the Erste Group in the Austrian property and mortgage business. This includes private mortgages and the financing of both state-subsidised and commercial housing construction, and also property management and the estate agency business. One of the most important operating units is s Bausparkasse, which, as the market leader in Austria, provides financing for private customers as well as non-profit and commercial property developers, and in addition has been responsible for Erste Bank Oesterreich's mortgage bond transactions. A significant role is also played by the estate agency s REAL with its 84 offices in Austria, and by s Wohnbaubank, a specialist bank for housing finance.

### Business review

**Strategy.** Together with its three savings banks, Erste Bank Oesterreich's goal is to offer its customers one-stop-shop solutions for all of their financing and investment requirements. The strategic focus lies on the consolidation of the market position with young people and students, pension and investment products for all target groups, and increases in the target group of the over 60s. For small and medium-sized companies, Erste Bank Oesterreich aims to be the first point of contact in financial matters, and targets long-term customer relationships based on partnership. In the areas of private banking and asset management, the focus is on offering customers competitive products and services with the support of a team of well-trained advisors, and on continuously improving these products and services with product specialists and portfolio managers.

### Highlights in 2008

**Measures related to the financial crisis.** Particularly during the financial crisis, it was important to provide comprehensive advisory services to support customers who had lost confidence in securities products. A special focus was placed on investment in Erste Bank Oesterreich's savings products. As the risks of foreign currency-based financing were difficult to estimate due to the insecurity on financial markets and the constant revisions of economic forecasts, Erste Bank Oesterreich and the savings banks welcomed the Austrian Financial Markets Supervisory Authority's recommendation to no longer grant foreign currency loans. Existing foreign currency loans were examined together with customers with the goal of finding the best individual solution.

**Successful acquisition of new customers.** One of Erste Bank Oesterreich's priorities in 2008 was the acquisition of new customers. There were various projects to achieve this goal: in cooperation with Vienna Insurance Group, the subsidiary Finanzpartner was established, which has accompanied new customers with competent and comprehensive advice directly in the companies that were won as clients. As the first joint product from Erste Bank Oesterreich and the savings banks, a "Happy Saver" package was introduced in all branches of the coffee retail chain, Tchibo/Eduscho, in Austria at the end of September. This package contained shopping vouchers for Tchibo as well as a coupon for opening a savings account with a very attractive interest rate. The packages were sold very quickly and a large number of new customers were acquired for Erste Bank Oesterreich and the savings banks.

**Simple and transparent products.** In order to be able to offer customers transparent products which are easy to understand, our product portfolio has been generally streamlined and reduced. Insurance products have always been a popular alternative to traditional investment products in economically insecure times. In this respect, the s Guarantee Concept offers customers a high level of security and attractive returns, while the s Privatpension is a suitable product for retirement provision.

**Best ever results in SME business.** In spite of weakening economic conditions in 2008, our Austrian SME business achieved its best ever results. Net profit increased by almost 50%, compared to the previous year, to EUR 40 million. This positive development was also due to the improvement in the service offering. For example, as of July 2008 Erste Bank Oesterreich has offered its customers an International Desk in ten countries in order to simplify cross-border commercial business. Erste Group and the network of savings banks support customers with information and the handling of cross-border business on a one-stop-shop basis. In addition to the special cross-border product package, a simplified international process for opening accounts was introduced throughout the Group.

### Financial review

| in EUR million | 2008 | 2007 |
|---|---|---|
| Pre-tax profit | 95.2 | 158.2 |
| Net profit after minority interests | 81.5 | 118.7 |
| Operating result | 272.5 | 275.1 |
| Cost/income ratio | 70.6% | 70.3% |
| Return on equity | 8.3% | 13.4% |
| Customer loans | 23,183 | 22,005 |
| Customer deposits | 24,078 | 21,773 |

In spite of the challenging market situation, the net interest income increased by 6.4% compared with the previous year, from EUR 580.5 million to EUR 617.4 million, largely due to a strong increase in customer deposits. Deposits increased by 10.6% to EUR 24.1 billion, loans to customers grew by 5.4% to EUR 23.2 billion. Net commission income declined by 11.5% from the previous year (EUR 330.4 million), to EUR 292.4 million. The decline in securities business, primarily due to the development of the financial markets in the fourth quarter of 2008, was only partially compensated by an increase of insurance fees and payment transactions. Administrative expenses were almost flat, up 0.6% from EUR 649.9 million to EUR 654.1 million thanks to consistent cost management. Net operating income grew from EUR 174.0 million to EUR 180.0 million (+3.5%), with an increase in the net trading result of 19.4% from EUR 14.1 million to EUR 16.8 million. Risk provisions were 8.5% below last year's levels (EUR 101.1 million), at EUR 92.5 million. The devaluations of financial assets, required as a result of the negative developments on the financial markets, resulted in a significant decline in other result (from EUR -15.8 million in 2007 to EUR -84.8 million) and led to a decline in net profit after minorities from EUR 118.7 million in the previous year to EUR 81.5 million. The cost/income ratio was 70.6%, with return on equity at 8.3%.

### Credit risk

Total exposure of Erste Bank Oesterreich amounted to EUR 35.2 billion at the end of 2008 (comparable figures for the previous year are not available due to the change in segment reporting) or 16.3% of Erste Group's total exposure. Asset quality remained excellent with 87% of exposure relating to the best risk class. The proportion of non-performing loans in total exposure amounted to 3.5%, of which 54% was covered by risk provisions. Including collateral NPL coverage was adequate.

## CZECH REPUBLIC

**Business profile.** The Czech Republic segment includes the retail and SME business of Česká spořitelna and its subsidiary operations. Česká spořitelna is the leading retail bank in the country and the largest among Erste Group's operations in CEE. It serves some 5.3 million retail, SME and large corporate clients and operates a network of 658 branches and 1,164 ATMs. Česká spořitelna has issued more than 3.3 million bank cards, including almost 600,000 credit cards. The bank's asset management, building society, pension fund and factoring subsidiaries also occupy leading positions in their respective fields.

### Economic review

The Czech economy grew by a respectable 3.7% in 2008; while GDP/capita almost reached EUR 15,000. However, even the Czech Republic could not avoid a negative impact from the global economic slowdown: given its strong trade ties with the eurozone, quarter-on-quarter GDP growth declined in the final quarter of the year. Factory orders as well as industrial production also fell sharply in Q4 2008, indicating that the years of economic growth will give way to at least a temporary recession. While the unemployment rate was still down year-on-year it saw an up-tick towards the end of the year as a substantial part of local industry – where most of the new jobs were created – is export-oriented.

Average consumer price inflation registered a marked increase compared to 2007 to 6.4%, mainly due to the government's tax reform and exogenous cost increases. While in the first half of the year the domestic economy generated pro-inflationary pressures, driven by high wage and robust economic growth, in the second half of the year the external environment turned decisively anti-inflationary. The latter fact also outweighed the impact from movements in the Czech Crown, which, after reaching record highs against the euro earlier in the year, depreciated materially towards the end of the year. As a result the Czech National Bank (CNB) became the first bank in the region to start easing monetary policy when it cut rates in August by 25bps in response to the significant strengthening of the Czech Crown over the summer. The CNB responded to the gloomier growth prospects by cutting more aggressively in November (75 bps). At the end of 2008, the reference rate of the Czech National Bank stood at 2.75%.

Topics that became a matter of interest for investors towards the end of the year, such as external and fiscal imbalances, were well under control in the Czech Republic. Thanks to a positive trade balance the current account was only mildly negative, while government spending only marginally outstripped revenues. Public and foreign debt remained at equally benign levels of below 30% of GDP. Although the Czech Republic is expected to fulfil all Maastricht criteria in time to adopt the euro by 2012, the adoption date remains uncertain, mainly for political reasons.

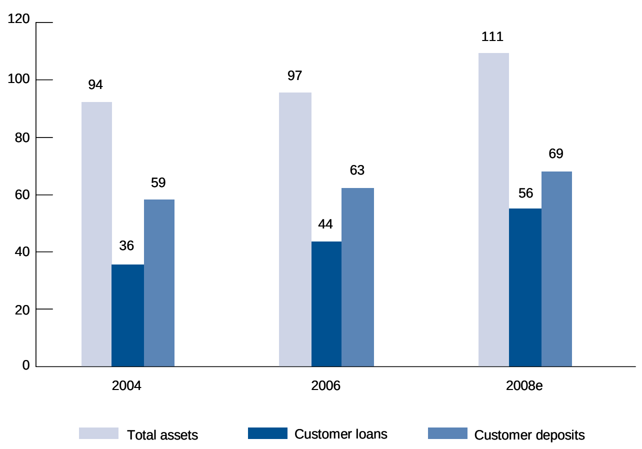
| Key economic indicators – Czech Republic | 2005 | 2006 | 2007 | 2008e |
|---|---|---|---|---|
| Population (ave, million) | 10.3 | 10.3 | 10.3 | 10.3 |
| GDP (nominal, EUR billion) | 100.2 | 113.5 | 127.2 | 149.7 |
| GDP/capita (in EUR thousand) | 9.7 | 11.0 | 12.4 | 14.5 |
| Real GDP growth (in %) | 6.3 | 6.8 | 6.0 | 3.7 |
| Private consumption growth (in %) | 2.5 | 5.4 | 5.2 | 2.7 |
| Exports (share of GDP in %) | 62.6 | 66.7 | 70.2 | 67.4 |
| Imports (share of GDP in %) | 60.6 | 64.7 | 66.8 | 63.8 |
| Unemployment (Eurostat definition, in %) | 8.9 | 8.1 | 6.6 | 5.4 |
| Consumer price inflation (ave, in %) | 1.9 | 2.5 | 2.8 | 6.4 |
| Short term interest rate (3 months eop, in %) | 2.2 | 2.6 | 4.1 | 1.9 |
| EUR FX rate (ave) | 29.8 | 28.3 | 27.8 | 25.0 |
| EUR FX rate (eop) | 29.3 | 28.0 | 26.5 | 26.9 |
| Current account balance (share of GDP, in %) | -1.6 | -3.1 | -2.5 | -1.9 |
| General government balance (share of GDP, in %) | -3.5 | -2.9 | -1.9 | -0.5 |

Source: Erste Group.

## Market review

The Czech banking market remained driven by the convergence story in 2008. Although being a relatively developed market compared to other CEE countries, asset penetration still remained low compared to Western European levels. Measured as a share of GDP, retail loans rose to 23% while housing loans increased to 19%. The market remained driven by retail loans which grew in excess of 20% in 2008. FX lending, which played a dominant role in countries with higher local interest rates, such as Hungary or Romania, remained insignificant, representing only 13% of total loans and related exclusively to the export-heavy corporate customer segment. In addition, 90% of FX-based loans were covered by FX deposits and/or revenues. The Czech National Bank proactively addressed the issue of frozen interbank market by offering new 2W and 3M facilities.

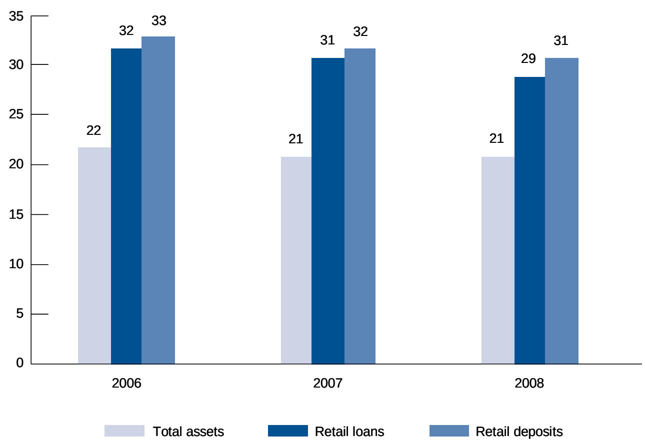
**Financial intermediation – Czech Rep (in % of GDP)**




Source: Czech National Bank, Erste Group.

Česká spořitelna comfortably maintained its number 1 position in retail banking and continued to be the second largest based on total assets. In doing so Česká spořitelna continued to reap the benefits from employing a conservative business model that is built on sustainable deposit funding. In terms of retail products Česká spořitelna maintained its dominant market position, owning approximately one third of housing loans as well as retail deposits. In relatively young and faster growing segments of market, such as credit cards, the bank's share was even higher.

**Market shares – Czech Republic (in %)**




Source: Czech National Bank, Erste Group.

## Business review

**Strategy.** Česká spořitelna's strategy is built on its strength in retail funding. This gives the bank a solid foundation for its continued growth and is a key competitive advantage in times of scarce liquidity. On this basis Česká spořitelna will continue to provide retail and SME customers with modern and flexible banking services in a sustainable and risk conscious manner.

## Highlights in 2008

**Focus on flexible products.** Product choice and flexibility remained the key elements in ensuring customer satisfaction at Česká spořitelna in 2008. This was achieved by allowing customers to assemble products and services according to their individual requirements and needs. A major success in this respect was the launch of a new personal account, with multiple service options. The range of services was continuously enlarged and by the end of 2008 only 13% of clients had the same service combinations. The new personal account was introduced in August 2007 and by November 2008 it had attracted 1 million customers. Other successful flexible products included mortgages with various interest rate and fee options and a bank card product, named the Cool Card that offers shopping discounts, extended warranties on purchased goods and various design options. Within three months of its launch in August 2008 the number of issued Cool cards reached 100,000.

**Growth in customer deposits.** Building on its key competitive strength, the Czech retail & SME business recorded continued customer deposit growth of 19% in 2008. The growth was driven mainly by deposits of private individuals, supported also by a new product called Golden Deposit, which is a combination of a saving and an investment product. The Golden Deposit has a term of two years and provides customers with a guaranteed interest rate. By the end of 2008, i.e. after only eight months of its launch the Golden Deposit attracted nearly EUR 500 million in new deposits.

**Loan growth slowed down in 2008.** The loan portfolio of the Czech retail & SME business expanded by 12% to EUR 16.2 billion in 2008. This development was mainly driven by retail products, such as housing and consumer loans. Despite these solid results and in line with the slowing economy the growth dynamics in new loans was decreasing, particularly in mortgages. In addition, growth was also impacted by the tightening of lending standards for new business and the review of contracts with external mortgage brokers in early 2008. Despite these measures, Česká spořitelna maintained its leading position in the Czech mortgage market. In contrast to housing loans, building society loans, consumer loans and loans to small and medium-sized companies all posted double-digit growth rates in 2008. Despite the growing loan portfolio the loan-to-deposit ratio remained stable at very conservative levels.

**Česká spořitelna successfully completed its First Choice Bank Programme (FCB).** The FCB programme launched in July 2006 has affirmed Česká spořitelna´s leading position in retail banking and financial markets, and reinforced its position in the SME market segment. As part of this programme Česká spořitelna has introduced dozens of successful user-friendly products and services and changed key processes, but also opened new client information and advisory centres and substantially expanded its distribution network. Overall, the FCB programme reinforced the strong foundations of Česká spořitelna's business model and created the conditions for the further strategic development of the bank even in economically more challenging times.

**Dominant position in electronic banking.** Česká spořitelna also maintained its leadership in the area of electronic banking. The total number of active users of direct banking (especially internet banking) products SERVIS 24 and BUSINESS 24 grew by 5% compared to 2007 and reached 1.2 million. The number of transactions carried out through SERVIS 24 and BUSINESS 24 recorded a 21% increase to 79 million. Česká spořitelna became the first bank in the Czech market to offer the option of accepting and paying invoices electronically in its SERVIS 24 internet banking service; the new e-invoice service can be activated directly via SERVIS 24.

## Financial review

| in EUR million | 2008 | 2007 |
|---|---|---|
| Pre-tax profit | 439.9 | 460.9 |
| Net profit after minority interests | 349.8 | 372.3 |
| Operating result | 773.8 | 546.1 |
| Cost/income ratio | 49.1% | 53.7% |
| Return on equity | 43.3% | 50.8% |
| Customer loans | 16,233 | 14,457 |
| Customer deposits | 23,474 | 19,728 |

The Czech retail & SME business increased its net interest income significantly, by 33.2% (currency-adjusted 21.0%), from EUR 820.1 million to EUR 1,092.7 million, due to volume increases in both liabilities and assets  Net commission income improved due to the positive trend in card business and account fees, by 24.1% (currency-adjusted 12.7%) from EUR 342.2 million to EUR 424.9 million. The declining trading result (from EUR 18.4 million in 2007 to EUR 2.6 million) is due to the depreciation of the CZK towards year end and the lowering of the key interest rate. Rising administrative expenses in relation to business expansion resulted in an increase in administrative expenses of EUR 111.8 million (17.6%) from EUR 634.6 million to EUR 746.4 million (6.8% on a currency-adjusted basis).

The operating result showed a very positive trend and at EUR 773.8 million was up 41.7% (currency-adjusted 28.6%) compared to the previous year (EUR 546.1 million). Higher lending volumes over the past years together with the deterioration of market conditions resulted in a significant increase in risk provisions, which rose by EUR 46.5 million or 66.3% to EUR 116.6 million (currency-adjusted +51.1%). In accordance with the current market situation, the other result was characterised by negative valuation requirements, which resulted in a decline to EUR -217.2 million from EUR -15.2 million. This item includes the write-down of exposure to Icelandic banks as well as to Lehman Brothers. The cost/income ratio improved from 53.7% to 49.1%. Net profit after minorities was down 6% to EUR 349.8 million (currency-adjusted -14.7%) compared to EUR 372.2 million in 2007. Return on equity was 43.3%.

### Credit risk

Total exposure of the Czech retail & SME business was EUR 28.6 billion in 2008, or 13% of Erste Group's total exposure (no comparable figure is available for 2007 due to the change in segmentation during the course of the year). At the same time non-performing loans rose substantially, due to the seasoning of the loan portfolio, slowing loan growth in 2008 and methodological changes. This resulted in an NPL ratio of 1.9%. NPL coverage (excluding collateral) declined to approximately 60%.

## ROMANIA

**Business profile.** The Romania segment includes the retail & SME business of Banca Comercială Română (BCR) and its subsidiaries. BCR is the clear market leader in the Romanian banking market offering a wide range of banking services. BCR also ranks first in leasing and asset management and is well positioned in the brokerage business. As of 2008 BCR entered the building society market and became an instant market leader. The bank services a broad base of 4.5 million customers and operates a network of 641 branches and more than 50 commercial centres.

### Economic review

The Romanian economy continued to grow strongly in 2008, although – in line with international developments – growth slowed down markedly towards the end of the year. Real GDP growth still came in at an estimated 7.6% driven by investments and a good performance in the agriculture, construction and energy sectors. As a result GDP/capita advanced to EUR 6,400. Inflationary pressures eased markedly during the course of the year as a result of lower commodity prices, but this was not enough to push down average consumer price inflation below last year's level.

While the country's trade and current account deficits narrowed in relation to GDP the imbalances still remained in the double-digits, requiring substantial external financing. This was effectively provided through foreign direct investments, which amounted to nearly 7% of GDP in 2008 and parent bank financing to various local banking subsidiaries. Despite the fact that private sector debt stood at only 41% of GDP, concerns about the country's reliance on external financing led to a decline in the Romanian Leu, which depreciated by about 10% vs the euro during the course of the year. The decline would have been more pronounced had the national bank not intervened in the market and raised the interest rate to 10.25%.

Romania followed a very prudent fiscal policy over the last years, but this trend came unstuck as spending was increased ahead of the parliamentary elections November and revenues fell short of expectations in the final quarter of the year. While the budget deficit – at 4.8% of GDP – was the highest in more than 10 years, public debt remained at very manageable levels, especially compared to developed Western economies.

| Key economic indicators – Romania | 2005 | 2006 | 2007 | 2008e |
|---|---|---|---|---|
| Population (ave, million) | 21.6 | 21.6 | 21.5 | 21.4 |
| GDP (nominal, EUR billion) | 79.7 | 97.8 | 123.8 | 138.3 |
| GDP/capita (in EUR thousand) | 3.7 | 4.5 | 5.8 | 6.4 |
| Real GDP growth (in %) | 4.2 | 7.9 | 6.2 | 7.6 |
| Private consumption growth (in %) | 9.4 | 11.4 | 9.8 | 7.5 |
| Exports (share of GDP in %) | 27.9 | 26.4 | 23.9 | 24.3 |
| Imports (share of GDP in %) | 40.8 | 41.7 | 41.1 | 38.0 |
| Unemployment (Eurostat definition, in %) | 5.9 | 5.2 | 4.1 | 4.4 |
| Consumer price inflation (ave, in %) | 9.0 | 6.6 | 4.8 | 7.9 |
| Short term interest rate (3 months eop, in %) | 7.6 | 8.6 | 8.4 | 15.5 |
| EUR FX rate (ave) | 3.6 | 3.5 | 3.3 | 3.7 |
| EUR FX rate (eop) | 3.7 | 3.4 | 3.6 | 4.0 |
| Current account balance (share of GDP, in %) | -8.6 | -10.4 | -13.5 | -13.1 |
| General government balance (share of GDP, in %) | -0.8 | -1.6 | -2.3 | -4.8 |

Source: Erste Group.

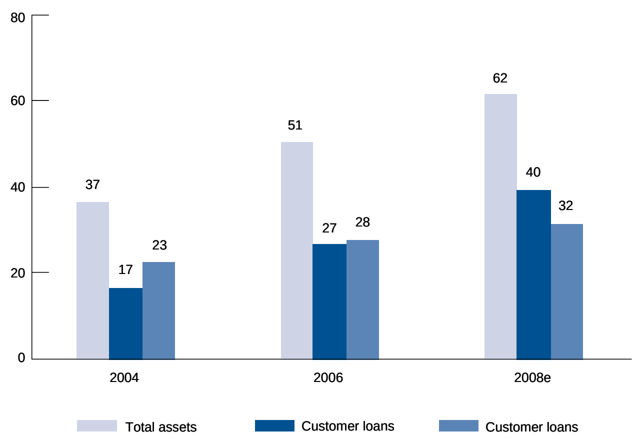
### Market review

The Romanian banking market continued to grow strongly in 2008, even though there was a noticeable slowdown towards the end of the year. Customer loans grew by 35% with retail loans being the major driver in terms of customer segment and typically euro-based FX loans in terms of currency split. Housing loans were the single fastest growing product, advancing by 47% year-on-year, albeit from a very low base: as a result total housing loans outstanding amounted to only EUR 5.2 billion, or about EUR 250 per capita; as a percentage of GDP they stood at slightly above 4%. In contrast, the same measure amounted to between 80-100% in developed Western countries, such as the US, the UK, the Netherlands or Switzerland.

The slowdown towards the end of the year was directly related to the introduction of more restrictive national bank policies on lending, such as higher provisioning for unsecured FX loans, in order to minimise potential risks, keep loan growth at sustainable levels, tame domestic demand and contribute to the narrowing of the current account deficit. Deposits – at 19% year-on-year – grew slower than loans. Here again the retail segment was the key growth driver. Local currency deposits remained dominant and fully covered local currency loans, while FX deposits accounted for more than a third of the total deposit market and hence remained a key local funding source for FX loans.

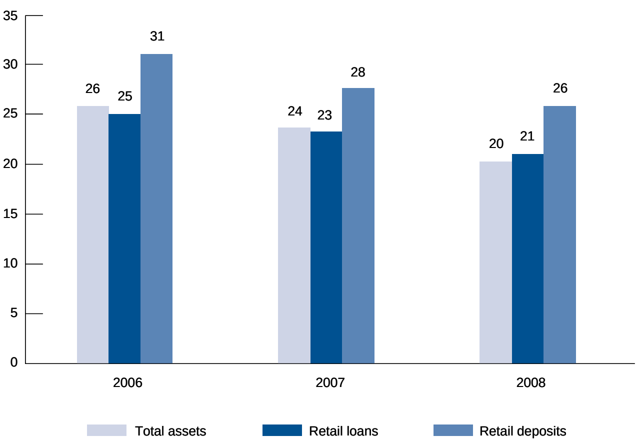
In 2008 BCR's market shares continued to decline on the asset as well as on the liability side. On the one hand this was a result of not aggressively competing for low margin deposits that players, who had previously overextended themselves on the lending side, were fighting for; on the other, it reflected BCR's own conservative approach to lending. Importantly, BCR comfortably maintained its leading position in the Romanian banking market, with market shares of 20-25% in the main retail business categories.

**Financial intermediation – Romania (in % of GDP)**




Source: National Bank of Romania, Erste Group.

**Market shares – Romania (in %)**




Source: National Bank of Romania, Erste Group.

## Business review

**Strategy.** BCR's strategy is to maintain its leading market position by further improving its sales channels as well as back office processes, and by continuing to put customer needs at the forefront of all activities. The main goal is to further increase customer loyalty and hence long-term profitability, while at the same time adhering to strict lending standards and offering high quality savings and investment products.

### Highlights in 2008

**Retail business – focus on efficiency and deposits.** During 2008, BCR introduced price based and non-price based incentives in order to reduce costly and low revenue cash transactions in branches and to encourage the uptake of electronic payment services. In addition BCR implemented sales tools that make it easier to acquire new customers, retain existing customers and cross-sell to all customers. Examples include the preparation of sales arguments for all retail products and the introduction of user-friendly interfaces to make product information easily accessible to advisors and product experts. In addition, a new model for retail sales force performance measurement was implemented, containing key performance indicator definitions, target setting models, sales reports as well as a performance-based incentive scheme. In the context of the widening global financial crisis, maintaining the strength in the retail deposit market became ever more important in terms of funding business growth. In this respect, BCR ran marketing campaigns to promote its saving products including those of the newly established building society subsidiary.

**Focus on secured lending.** In 2008, the bank's policy was to increase the share of secured loans within the retail portfolio. Accordingly, secured housing loans grew the fastest, while unsecured – typically local currency denominated – consumer loans increased only moderately. However, the latter still made up about 40% of the retail portfolio. The local corporate portfolio registered quite a balanced increase in all client segments: while loans to SMEs increased fastest they were closely followed by those extended to municipalities. Overall, customer loans in the Romanian retail & SME business grew to EUR 11 billion, up a currency-unadjusted 12% on the previous year; a significant slowdown was registered towards the end of the year as a result of tighter lending standards demanded by the national bank on the one hand, and slowing economic growth on the other.

**Integration programme successfully completed.** The Integration and Development Program (IDP), which touched and transformed almost every aspect of the business in BCR, was officially completed in April 2008. The programme involved the transfer of back office activities from the branch network to the head office or to regional processing centres, as well as the centralisation or outsourcing of support functions. The full separation between front office and back office activities led to a higher level of customer focus among branch staff and consistent quality standards across the network. Furthermore, it contributed to increasing the bank's efficiency and facilitated better bank-wide risk management. Other key achievements have been the completion of payment centralisation and the outsourcing of procurement processes. Also, in order to be able to measure the performance of reengineered processes, a set of key performance indicators (KPIs) was defined and implemented.

**Investments into alternative distribution channels.** Alternative distribution channels play an important role in the bank's development and market share growth and therefore BCR has invested significant amounts into this area. This resulted in the transfer of transactions from branches, increased client retention and additional revenue generation. BCR continued to enhance the functionality of its 24/7 contact centre offering access to personalised information and transactions. Furthermore, self service areas were implemented in 20 larger branches in selected locations countrywide: Easy 24 Banking are fully automatic units, equipped with ATMs, FX ATMs, multi-functional machines, phone banking terminals, Info Kiosks and Service Boxes. Starting July 2008, the new Internet Banking Service (Click 24 Banking) was launched as a stable, flexible and user-friendly solution for private individuals. BCR also continued to expand its network of ATM and POS terminals, which numbered more than 1,500 and 13,000 units, respectively.

## Financial review

| in EUR million | 2008 | 2007 |
|---|---|---|
| Pre-tax profit | 439.8 | 294.2 |
| Net profit after minority interests | 240.1 | 168.3 |
| Operating result | 547.7 | 270.8 |
| Cost/income ratio | 45.5% | 65.6% |
| Return on equity | 53.4% | 40.8% |
| Customer loans | 11,009 | 9,874 |
| Customer deposits | 7,303 | 7,364 |

The operating result of the Romanian retail and SME business, which more than doubled compared with the previous year, reached EUR 547.7 million (2007: 270.8 million). The significant, 45.2% rise in net interest income (currency-adjusted 60.4%), from EUR 510.8 million to EUR 741.6 million, mainly resulted from a strong rise in customer loans at resilient margins since H2 2007 supported by the application of the Effective Interest Rate (EIR) guidelines, which stipulate that interest-related commissions be transferred to interest income. The increase without the EIR effect and currency-adjusted was 37.0%.The rise in payment and lending fees was offset by the reclassification in net interest income and resulted in a decline in fee income of EUR 12.6 million (5.1%) compared with 2007 to EUR 236.3 million (currency-adjusted +4.9%). In addition to strict cost management, the 11.5% decline in administrative expenses (currency-adjusted 2.2%) from EUR 516.9 million in the previous year to EUR 457.6 million was also due to the successful integration of BCR (for instance headcount was reduced from 12,224 to 9,985 at the end of 2008), but also by lower restructuring costs of EUR 22.5 million in 2008. (2007: EUR 68 million). The cost/income ratio significantly improved on the previous year's value of 65.6%, to 45.5%.

The effects of the financial crisis, a conservative risk policy and the currency trend were reflected in the increase of risk provisions (from positive EUR 34.5 million in the previous year to negative EUR 121.2 million). This development was further impacted by positive one-off effects in 2007: cancellation of the reinsurance of consumer loans from June 2007; sales proceeds from receivables that had already been completely written off; and higher Group reserve releases together significantly aided the 2007 results. Sales proceeds from investments caused the rise in other result to EUR 13.2 million (previous year EUR -11.2 million). Net profit after minorities totalled EUR 240.1 million, compared to EUR 168.3 million in the previous year, which equates to an impressive rise of 42.7% (currency-adjusted 57.6%). Return on equity improved from 40.8% to 53.4%.

## Credit risk

Total exposure of the Romanian retail & SME business amounted to EUR 13.2 billion or 6% of Erste Group's total credit risk exposure (no comparable figure is available for 2007 due to the change in segmentation during the course of the year). Non-performing loans rose as a result of slowing, albeit still significant loan growth and a gradual deterioration in asset quality across all segments in the second half of the year; this was also reflected in a rising NPL ratio, which stood at 3.8%, after 2.0% in the previous year. NPL coverage (excluding collateral) declined compared to 2007, but – at 106% – non-performing loans continued to be fully covered by risk provisions.

## SLOVAKIA

**Business profile.** The Slovakia segment encompasses the retail & SME business of Slovenská sporiteľna (SLSP) and its subsidiaries. Slovenská sporiteľna, the formerly state owned savings bank, is the long standing market leader in Slovakia with a history dating back to the end of 19th century. It serves some 2.6 million clients, or about half of the Slovak population, through a network of 275 branches and more than 600 ATMs. Slovenská sporiteľňa also occupies leadership positions in asset management, leasing and factoring.

### Economic review

2008 was another excellent year for the Slovak economy, even though growth slowed down markedly towards the end of the year, in line with the weakness of the global economy. Real GDP growth amounted to an estimated 6.8%, while GDP/capita advanced to more than EUR 12,000. With Germany and other major trading partners either in or approaching recession, foreign demand for Slovak goods and services has decreased, particularly affecting exporters of durable goods such as carmakers and their suppliers. As domestic demand also weakened, GDP grew significantly slower than in the record growth year of 2007. Still, Slovakia was among the top countries in the European Union based on the growth of the economy.

While average annual inflation was up compared with the previous year, there was a substantial decline in price pressure towards the end of the year. This resulted from a favourable base effect, as food prices saw significant price increases in 2007. The steep fall in oil prices led to cheaper fuels and has reduced pressure on energy prices. Since Slovakia adopted the euro in January 1, 2009, the central bank did not have much room left for independent monetary policy. Indeed, the NBS followed the ECB's moves without much delay.

2008 again confirmed that the deficit of the Slovak trade balance is mainly connected to oil and commodity imports and accordingly was mainly a reflection of the worsening trade balance with Russia, which is the most important oil and gas trading partner for Slovakia. On the export side, decreased demand for cars impacted the trade balance with countries such as the US and Germany. In addition, a higher deficit of services and transfers, as well as a smaller surplus of merchandise trade also contributed to the significant, but manageable current account deficit. In terms of fiscal policy, the budget deficit remained well within the ranges set by the Stability and Growth Pact and hence did not pose an obstacle to timely eurozone entry on 1 January 2009.

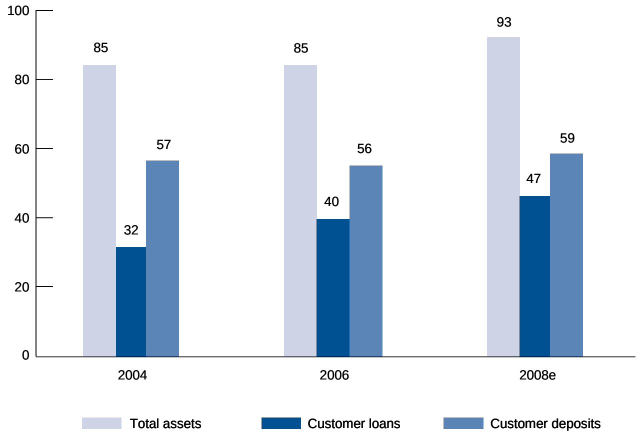
| Key economic indicators – Slovakia | 2005 | 2006 | 2007 | 2008e |
|---|---|---|---|---|
| Population (ave, million) | 5.4 | 5.4 | 5.4 | 5.4 |
| GDP (nominal, EUR billion) | 38.5 | 44.6 | 54.8 | 65.3 |
| GDP/capita (in EUR thousand) | 7.1 | 8.3 | 10.1 | 12.1 |
| Real GDP growth (in %) | 6.6 | 8.5 | 10.4 | 6.8 |
| Private consumption growth (in %) | 6.5 | 5.9 | 7.1 | 6.3 |
| Exports (share of GDP in %) | 66.7 | 74.3 | 76.7 | 73.0 |
| Imports (share of GDP in %) | 71.6 | 78.8 | 77.9 | 74.1 |
| Unemployment (Eurostat definition, in %) | 11.6 | 10.4 | 8.4 | 7.6 |
| Consumer price inflation (ave, in %) | 2.7 | 4.5 | 2.8 | 4.6 |
| Short term interest rate (3 months eop, in %) | 3.2 | 4.7 | 4.3 | 3.0 |
| EUR FX rate (ave) | 38.6 | 37.2 | 33.8 | 31.3 |
| EUR FX rate (eop) | 37.8 | 34.6 | 33.6 | 30.1 |
| Current account balance (share of GDP, in %) | -8.4 | -7.2 | -5.3 | -5.7 |
| General government balance (share of GDP, in %) | -2.8 | -3.5 | -2.0 | -2.2 |

Source: Erste Group.

### Market review

The Slovakian banking market remained one of the most balanced in the CEE region in 2008: deposits continued to grow in line with loans, resulting in a system-wide loan-to-deposit ratio of substantially below 100%, and the significance of FX loans in the corporate market was mainly a result of the country's status as an exporter. Due to the adoption of the euro at the start of 2009, FX loans will no longer be a topic even in the corporate sector. Overall, the strong economic growth in Slovakia supported the country's banking market. Due to fast growing retail and corporate loan demand and despite high real GDP growth, banking assets as a percentage of GDP rose to 93% by the end of 2008. On the asset side, housing and consumer loans remained the main growth drivers. On the liability side, deposit growth outpaced that of funds due to higher interest rates. However, financial intermediation ratios of the Slovakian banking market are still well below those in the EU, indicating further growth potential.

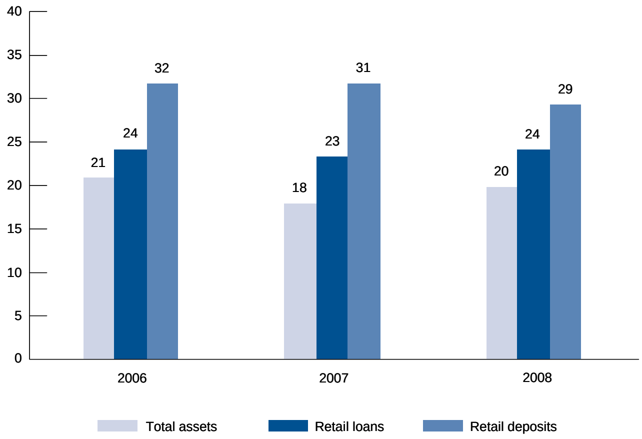
**Financial intermediation – Slovakia (in % of GDP)**




Source: National Bank of Slovakia, Erste Group.

Slovenská sporiteľna comfortably maintained its leadership position in Slovakian banking market in 2008. True to its roots as a savings bank it held the highest share in the deposit and especially the retail deposit market. Similarly, a much stronger position in the retail segment was also characteristic for the lending business. While the stock of housing loans was three times as high as that of consumer loans, the market share in the latter – at 41% – was the highest among all product categories. Overall, total asset market share of SLSP remained at about 20%.

**Market shares – Slovakia (in %)**




Source: National Bank of Slovakia, Erste Group.

## Business review

**Strategy.** The strategic focus of Slovenská sporiteľňa remains on maintaining its leading position in retail and SME banking by building on its unique strength in retail funding. Specific business development measures will include the popularisation of electronic banking, increased emphasis on wealth creation services and the expansion of SME financing activities.

## Highlights 2008

**Euro adoption gives extra boost to deposit growth.** Despite increasing economic uncertainties, the Slovak retail and SME business was one of the major beneficiaries from the euro changeover in Slovakia in terms of deposit taking. Deposits grew by 37% to EUR 7.6 billion thanks to a strong increase in the final quarter, when customers where depositing funds that were previously held as cash outside of the banking system, particularly with market leader Slovenská sporiteľňa, in order to ensure a free-of-charge translation into euros. Unstable financial markets also contributed to the growth in deposits as fund investors fled risky investments and placed them as term deposits with the bank.

**Loan growth slows in 2008.** Loan growth continued to slow down during the course of the year as an inevitable consequence of the slowing economy and rapid growth in previous years. Overall, total loans outstanding of the Slovak retail & SME business amounted to EUR 5.5 billion, up 24% on the previous year. Retail loans – and within this category housing loans – were the key growth driver. Demand for SME and local corporate loans slowed considerably towards the end of the year, but on an annual basis growth was still positive.

**Office space consolidation completed**. The vast majority of Slovenská sporiteľňa's and its subsidiaries' headquarter units moved to a new building in 2008, consolidating locations dispersed around Bratislava. This will result in easier interdepartmental communication and significant energy savings. In addition to moving to a new building, progress was also made with implementing the new core banking system. Both projects are expected to contribute significantly to the bank's future growth potential.

**Non-cash transactions on the rise**. The rise in non cash transactions was driven by two major factors: the bank's fee strategy was very much aimed at promoting the use of such transactions and more clients started to favour card payments, as a result of ease of use, the growing POS network and in preparation for euro adoption, ahead of which the general public was advised to employ card payments in order to prevent initial errors after the currency switch. While the volume of POS transactions grew by the double-digits, payment card utilisation also edged up. Card-related product innovations included the introduction of a cash-back and prepaid phone card recharging service via the POS network.

## Financial review

| in EUR million | 2008 | 2007 |
|---|---|---|
| Pre-tax profit | 100.4 | 113.6 |
| Net profit after minority interests | 82.7 | 103.6 |
| Operating result | 216.3 | 178.9 |
| Cost/income ratio | 53.3% | 55.0% |
| Return on equity | 27.5% | 38.4% |
| Customer loans | 5,514 | 4,451 |
| Customer deposits | 7,599 | 5,546 |

The EUR 43.4 million, or 14.9% improvement of net interest income in the Slovak retail & SME business from EUR 291.4 million in the previous year to EUR 334.8 million (currency-adjusted +6.4%) was due to the rise in lending volumes and customer deposits accompanied by almost stable margins. Rising credit and payment transaction volumes and a new pricing policy contributed to an increase in net commission income of 18% (currency-adjusted: 9.3%) from EUR 91.9 to EUR 108.4 million in 2008. The good performance of net interest and fee income and the increase in trading result from EUR 13.8 million in the previous year to EUR 20.2 million lead to an operating result of EUR 216.3 million, exceeding that of the previous year (EUR 178.9 million) by 20.9% (currency-adjusted 11.9%).

The 13.3% increase in administrative expenses from EUR 218.2 million in 2007 to EUR 247.2 million (currency-adjusted +4.9%) was mainly due to costs in relation to the Euro introduction and costs for a new core banking system. The cost/income ratio further improved from 55.0% to 53.3%.The EUR 44 million rise in risk provisions to EUR 81.4 million (2007: EUR 37.4 million) reflected the changeover to the Basel II regime, as well as higher provisions for subsidiaries. Net profit after minorities was around 20.2% (currency-adjusted: 26.1%) below the previous year's value of EUR 103.6 million, at EUR 82.7 million. Return on equity was 27.5%.

## Credit risk

Total credit exposure of the Slovak retail & SME business amounted to EUR 8.5 billion in 2008 (no comparable figure is available for 2007 due to the change in segmentation during the course of the year). Retail loans increased their share of total exposure, as housing loans continued to be in demand. Asset quality trends reflected the changes in the portfolio structure and tax legislation preventing the bank from selling NPLs in a tax-efficient manner unless they were three years overdue. This resulted in an NPL ratio of 3.2%, while NPL coverage (excluding collateral) stood at 82%.

# HUNGARY

**Business profile.** The Hungary segment comprises the retail and SME business of Erste Bank Hungary and its subsidiaries. Erste Bank Hungary is a considerable player in the Hungarian banking market: in terms of customers it occupies the No. 2 spot with 800,000 clients; it was also second in retail lending, with a market share of over 12%. With a total asset market share of 7.8% Erste Bank Hungary ranks fifth in the market. The network coverage remains virtually unchanged at more than 200 branches nationwide, 27 commercial centres for SME clients and 327 online-post offices. In addition, Erste Bank Hungary maintains strong positions in the brokerage business and in leasing.

## Economic review

Hungary's economy continued its poor performance in 2008. The government's austerity package launched in 2006 significantly increased the tax burden on individuals and corporates, and led to lower private consumption. The export performance, which used to be a major support factor in times of difficulty, also started to suffer in the final quarter of 2008, mainly due to the decline in global demand and high exposure to Germany. Overall, Hungary's GDP in 2008 grew only by 0.9%, one of the lowest in the region. The unemployment rate increased to 8.0%, as more than 10,000 people have lost their jobs due to the financial crisis in 2008. On the positive side, the austerity measures were instrumental in reigning in the budget deficit to 3.3% of GDP.

The year 2008 saw the forint at its strongest and its weakest nominal exchange rates vs the euro in a decade moving from 230 in July to 286 in October. Earlier in the year, abandoning the HUF trading band seemed to open the path for the exchange rate to become a powerful tool in fighting inflation, however, the gain of the forint quickly evaporated when the global financial crisis and with it evaporating risk appetite hit Hungary's economy. The national bank continuously increased the base rate until October (11.5%), however, the last quarter of the year saw two rate cuts and by year end the base rate stood at 10.0%.

The international financial crisis has drastically impacted Hungary in two areas: increased exchange rate volatility and government solvency problems due to the illiquid bond market. As a result, the IMF, the World Bank, and the EU have agreed with Hungary to introduce a EUR 20 billion package with the aim of boosting the economy and restoring confidence. In addition, the government introduced a new austerity package which will likely enable Hungary to reach most Maastricht criteria by 2010; accordingly, euro adoption may come sooner (2012) than originally expected.

| Key economic indicators – Hungary | 2005 | 2006 | 2007 | 2008e |
|---|---|---|---|---|
| Population (ave, million) | 10.1 | 10.1 | 10.1 | 10.0 |
| GDP (nominal, EUR billion) | 88.7 | 90.0 | 101.1 | 105.4 |
| GDP/capita (in EUR thousand) | 8.8 | 8.9 | 10.1 | 10.5 |
| Real GDP growth (in %) | 4.0 | 4.1 | 1.1 | 0.9 |
| Private consumption growth (in %) | 3.6 | 1.9 | -1.8 | 0.5 |
| Exports (share of GDP in %) | 56.0 | 64.9 | 67.6 | 68.6 |
| Imports (share of GDP in %) | 58.5 | 67.1 | 67.3 | 68.5 |
| Unemployment (Eurostat definition, in %) | 7.2 | 7.5 | 7.7 | 8.0 |
| Consumer price inflation (ave, in %) | 3.6 | 3.9 | 8.0 | 6.1 |
| Short term interest rate (3 months eop, in %) | 6.3 | 8.1 | 7.5 | 10.0 |
| EUR FX rate (ave) | 248.1 | 264.3 | 251.3 | 251.3 |
| EUR FX rate (eop) | 252.7 | 251.8 | 253.4 | 264.8 |
| Current account balance (share of GDP, in %) | -7.5 | -7.5 | -6.4 | -7.6 |
| General government balance (share of GDP, in %) | -7.8 | -9.2 | -5.0 | -3.3 |

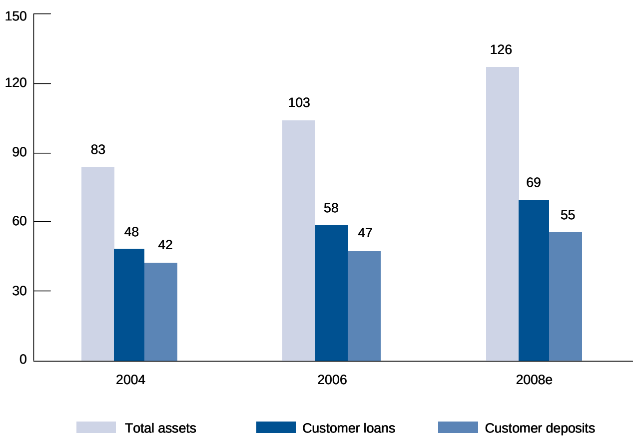
Source: Erste Group.

## Market review

The financial crisis significantly changed Hungary's foreign exchange loan-driven banking market. Banks stopped to offering Swiss Franc-based loans, which accounted for more than 90% of newly disbursed housing loans, the fastest growing product in the market. The switch to euro-based loans and, in the case of shorter maturity personal loans, local currency-based loans resulted in a significant slowdown of loan growth especially in the final quarter of 2008. The savings market also experienced significant changes as there was a substantial shift to bank deposits from investment funds. The competition for deposits has intensified – as banks have been marketing deposits as loss leaders – which put pressure on margins.

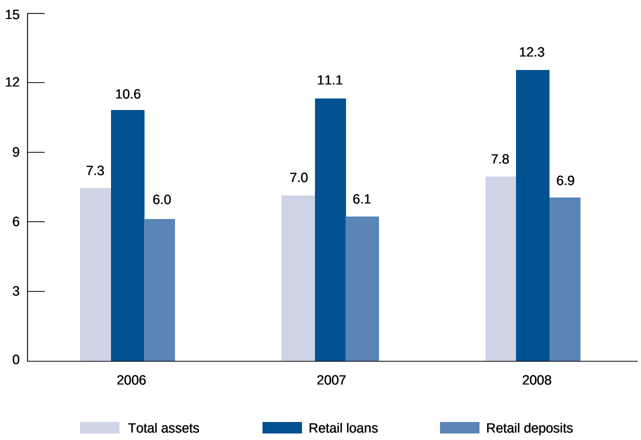
In this environment Erste Bank Hungary's total asset market share improved to 7.8% in 2008 with gains posted in the retail as well as the corporate segment. The bank successfully retained its No. 2 position in terms of customers thanks to its well-developed network of more than 200 branches and 27 commercial centres. In addition, Erste Bank Hungary continued to benefit from the strategic partnership with the Hungarian Post. Access to a variable cost distribution channel of 327 online post offices played an important role in the bank's successful deposit campaigns. Altogether, Erste Bank Hungary's deposit market share increased slightly to 6.3% in 2008.

### Financial intermediation – Hungary (in % of GDP)




Source: National Bank of Hungary, Erste Group.

### Market shares – Hungary (in %)




Source: National Bank of Hungary, Erste Group.

## Business review

**Strategy.** The global financial crisis and the quickly deteriorating economic outlook changed the rules of banking in Hungary. Pressure on the Hungarian Forint, reliance on parent company financing and increased funding costs exposed the risks of FX lending. Erste Bank Hungary reacted without delay and implemented a set of measures that will put the business plan on a slower growth, but more sustainable footing: Swiss Franc loans were abolished, interest rates were raised in order reflect higher funding costs and additional emphasis was put on deposit collection with a view to containing the loan/deposit ratio at manageable levels. This should equip Erste Bank Hungary with the tools to successfully confront a slower growth and higher risk cost business environment.

### Highlights in 2008

**Swiss Franc lending comes to a halt.** While Erste Bank Hungary remained one of the top players in the housing loan market, it also became evident that extending Swiss Franc-based loans was no longer the right option. Accordingly, the bank stopped this business and efforts were made to re-channel demand for FX loans into euro-based products, as Erste Group overall enjoys a much better liquidity position in this currency. The extension of local currency loans is also expected to play a more prominent role, particularly in the case of unsecured loans, such as credit cards or personal loans.

**Opportunities in SME and local corporate lending.** While retail lending clearly slowed down in the second half of the year as a result of lower FX lending volumes, opportunities opened up in the local corporate market, as many players were either constrained by liquidity concerns or had withdrawn from the market for other reasons. This was especially the case in the real estate segment, where declining competitive tension gave those banks still active the market, such as Erste Bank Hungary, the opportunity to cherry-pick projects. While risk concerns have clearly increased in this segment, there were a number of risk mitigants such as pricing power and a real estate market that has seen no excesses over the past years.

**Beneficial cooperation with the Hungarian Post Office.** The strategic cooperation and the common sales and product development continued in 2008 between Erste Bank Hungary and the Hungarian Post. Prior to 2008 Erste Bank Hungary has already been offering a wide range of financial services and products via this distribution channel under a separate brand name. From 2008, additional products were launched, such as a new account product for pensioners and new services targeting the SME market. More than 200,000 customers manage their financial business at post offices, but do not necessarily have an account. Nonetheless the number of postal current accounts a well as funds under management at investment funds grew in the double-digits. As a result, the contribution of postal revenues is expected to increase within the retail segment.

**Declining car leasing business.** In 2008, leasing held a 10-12% market share in terms of total car and motorcycle financing volume, ranking 5$^{th}$ in the market. In the motorcycle segment Erste Bank Hungary had a market share of around 30-40%. The truck and machine financing segment (established in 2007) both had a market share of around 3%. As new car sales have slowed substantially, business for the leasing unit has also declined. The adverse trends have continued in the domestic car market, with decreasing turnover. While product innovations, such as loans with integrated casco insurance and FX-based loans with fixed monthly payments, helped to confront the slowdown, they did not completely make up for the decline in business volumes. In 2008, they still represented only a small but growing proportion of total car financings but are expected to increase their share going forward.

**Brokerage business expands client base.** Erste Investment Hungary was able to increase its market share to over 17% against the backdrop of decreasing turnover on Budapest Stock Exchange (BSE). In February 2008, it launched certificates onto the market, winning it the 'innovation prize 2008' from BSE. From early September, numerous clients opened new internet and local brokerage accounts in response to declining equity prices. Another highlight of the year was the sale of the stake in the Budapest Stock Exchange.

## Financial review

| in EUR million | 2008 | 2007 |
|---|---|---|
| Pre-tax profit | 147.4 | 103.1 |
| Net profit after minority interests | 109.5 | 76.5 |
| Operating result | 205.7 | 173.5 |
| Cost/income ratio | 52.1% | 54.4% |
| Return on equity | 34.1% | 26.9% |
| Customer loans | 7,256 | 5,700 |
| Customer deposits | 3,159 | 2,783 |

The Hungarian retail & SME business increased its net interest income by 19.8% from EUR 245.7 million in the previous year to EUR 294.3 million. This positive development was mainly supported by continued retail loan demand. The 7.4% increase in net commission income from EUR 121.6 million in the previous year to EUR 130.7 million also contributed to the operating result, which improved by 18.6% from EUR 173.5 million in the previous year to EUR 205.7 million. The 8% increase in administrative expenses to EUR 223.8 million, following EUR 207.2 million in the previous year, resulted from personnel and salary increases and a higher office space requirement due to the expansion of business operations. The general market situation and higher lending volumes also caused a rise in risk provisions at Erste Bank Hungary of 15.7% (from EUR 59.7 million in 2007 to EUR 69.1 million). The EUR 21.5 million increase in other result to EUR 10.8 million (2007: EUR -10.7 million) resulted primarily from income from sales of a participation. At EUR 109.5 million, net profit after minorities improved by 43.1% (2007:

EUR 76.5 million). The cost/income ratio further improved from 54.4% in the previous year to 52.1%. Return on equity was 34.1%.

### Credit risk

At the end of 2008 total exposure related to the retail & SME business of Erste Bank Hungary amounted to EUR 8.5 billion (no comparable figure is available for 2007 due to the change in segmentation during the course of the year), or 4% of Erste Group's total exposure. Housing loans continued to have the largest share in exposure. In view of deteriorating market conditions in the second half of 2008, several restrictive measures were taken: limits for loan-to-value ratios were reduced substantially and lending in Swiss francs was suspended. In the SME portfolio, which also includes public administration clients, the share of corporate loans declined, but remained above 50%; stronger growth, albeit from a low base, was achieved in municipality and real estate financing. Asset quality remained at satisfactory levels with 80% of total exposure in the best risk category. The non-performing loan ratio reached 2.9% at the end of 2008 and the NPL coverage (excluding collateral) amounted to 50%.

## CROATIA

**Business profile.** The Croatia segment covers the retail & SME business of Erste & Steiermärkische Bank (ESB), commonly referred to as Erste Bank Croatia. It is one of the major banking institutions in Croatia with double-digit market shares in all key product categories. Erste Bank Croatia services some 700,000 clients via network of 119 branches and well developed alternative channels, such as internet and mobile communications as well as ATMs. In addition to banking services, Erste Bank Croatia also occupies leading market positions in a wide range of financial services, such as fund management, pension funds, brokerage and leasing.

### Economic review

In line with the global economic slowdown, real GDP growth of the Croatian economy moderated significantly to 2.3% in 2008. At the same time, GDP/capita advanced to EUR 9,400. Growth was driven by investments and government consumption while private consumption and exports showed a relatively poor performance. The growth of the economy was also supported by the stable tourist sector performance. Importantly, the unemployment rate declined further to 8.9%. The current account deficit continued to rise as a result of stronger merchandise imports.

After peaking in July at an annualised rate of 8.4%, inflation pressures eased towards the end of the year, given the moderation in oil and food prices. On average, inflation was still substantially above last year's level. The exchange rate during the year was influenced by one-off effects, such as the public offer for INA by Hungarian oil company MOL, leading to a significant appreciation and bringing the exchange rate to 7.1 against the euro. Later in the year the kuna stabilized in the range of 7.2-7.3 versus the euro.

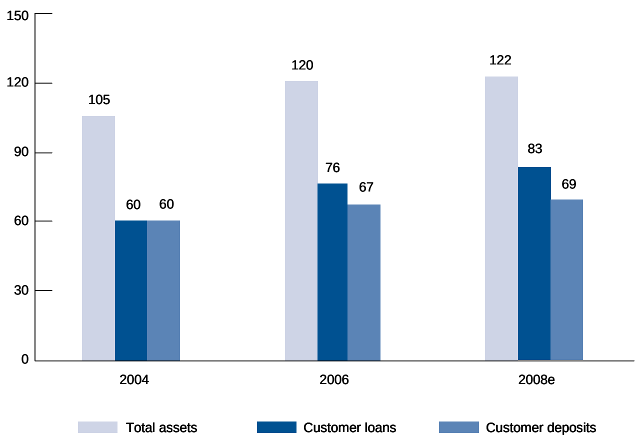
| Key economic indicators – Croatia | 2005 | 2006 | 2007 | 2008e |
|---|---|---|---|---|
| Population (ave, million) | 4.4 | 4.4 | 4.4 | 4.4 |
| GDP (nominal, EUR billion) | 31.3 | 34.2 | 37.5 | 41.2 |
| GDP/capita (in EUR thousand) | 7.0 | 7.8 | 8.5 | 9.4 |
| Real GDP growth (in %) | 4.3 | 4.8 | 5.6 | 2.3 |
| Private consumption growth (in %) | 3.4 | 3.5 | 6.2 | 1.3 |
| Exports (share of GDP in %) | 23.1 | 24.7 | 24.5 | 23.9 |
| Imports (share of GDP in %) | 47.1 | 49.1 | 49.7 | 50.4 |
| Unemployment (Eurostat definition, in %) | 12.3 | 10.5 | 9.7 | 8.9 |
| Consumer price inflation (ave, in %) | 3.3 | 3.2 | 2.9 | 6.1 |
| Short term interest rate (3 months eop, in %) | 6.0 | 4.6 | 6.9 | 8.2 |
| EUR FX rate (ave) | 7.4 | 7.3 | 7.3 | 7.2 |
| EUR FX rate (eop) | 7.4 | 7.4 | 7.3 | 7.3 |
| Current account balance (share of GDP, in %) | -6.3 | -7.9 | -8.6 | -10.9 |
| General government balance (share of GDP, in %) | -4.0 | -2.4 | -1.6 | -1.6 |

Source: Erste Group.

### Market review

The Croatian Banking market is among the most developed in the CEE region based on financial intermediation metrics. Total banking assets as a percentage of GDP, the broadest measure of penetration, remained flat at about 122%. At the same time customer loan penetration rose to 83%; while the deposit-to-GDP ratio declined slightly compared to 2007. In response to slower economic and lending growth, the central bank eased monetary policy by terminating the marginal reserve requirement for FX liabilities and lowering the obligatory reserve requirement from 17% to 14% supplying additional liquidity to the banking system, in order to stabilise money markets and improve public debt refinancing.

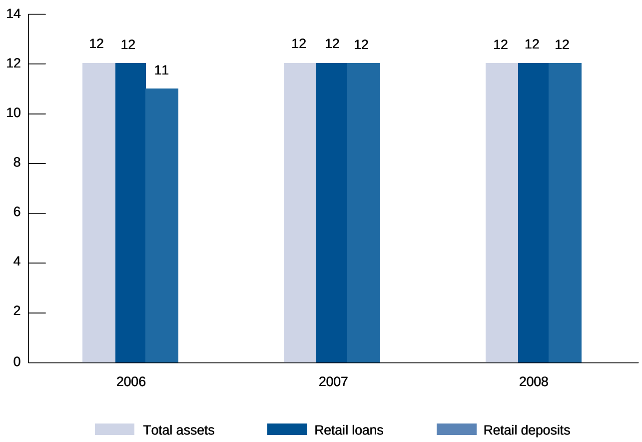
### Financial intermediation – Croatia (in % of GDP)




Source: National Bank of Croatia, Erste Group.

The Croatian banking market was primarily driven by euro-based foreign exchange loans in 2008, the bulk of which was covered by FX deposits. In this respect, the termination of the marginal reserve requirement gave banks additional manoeuvring space by making FX-based financing available at a reasonable cost, hence ensuring additional funding to support credit activity. Erste Bank Croatia continued its successful operation in this regulated environment: the bank's market shares have slightly increased in 2008 finishing the year in the 12-14% range. Total assets market share went up from 12.0% to 12.4% in 2008, within which the share of retail loans increased from 11.8% to 12.3%. Total deposit market share improved to 13.0% (up from 12.4% in the previous year).

### Market shares – Croatia (in %)




Source: National Bank of Croatia, Erste Group.

## Business review

**Strategy.** Erste Bank Croatia aims to firmly position itself as a premier provider of financial services in Croatia, both in terms of customer base and product as well as service quality. To achieve this it primarily targets the mass and mass affluent segments through a state-of-the-art branch network and alternative distribution channels. The continuing development of the product portfolio and distribution capabilities, as well as a pro-active and personalised approach to customers, are at the core of the bank's efforts of delivering superior value to its clients.

### Highlights in 2008

**National bank relaxes reserve requirements.** Lower economic growth, strong inflationary pressures in the first half of the year and a very restrictive monetary policy set by the national bank in order to combat unsustainable credit growth, led to a substantial slowdown of credit growth. Accordingly the strict monetary policy was relaxed by terminating the marginal reserve requirement in October 2008, allowing banks to access foreign financing at a standard regulatory cost. The national bank has also reduced the banks' obligatory reserve requirement rate from 17% to 14% in order to provide additional liquidity to the banking system.

**Focus on retail business.** Erste Bank Croatia continued to focus on expanding its retail business in 2008. To this effect a number of new products were launched: the Medo Štedo Diners Club Credit card, which was developed in cooperation with EBC's credit card arm, combined credit card functionality with a special term deposit (i.e. savings accounts for children), was very well received and quickly became the most successful product of its kind on the market. In addition, a whole product range designed for young people, including savings products, was brought to market. On the lending side, Erste Bank Croatia further expanded its housing loan franchise and benefited from positive characteristics of this type of business: long-term customer loyalty and increased cross-selling potential.

**Balanced corporate business.** In corporate business Erste Bank Croatia put the emphasis on deposit collection in 2008, mainly by offering competitive terms on savings, sight and cross-border deposits. On the financing side, a successful cooperation with the Croatian Bank for Reconstruction and Development (HBOR) has resulted in an improved market position in the SME and infrastructure project financing segments. Finally, a cooperation with Erste Factoring, Erste Group's factoring unit, exceeded previous expectations and was a major fee driver in 2008.

### Financial review

| in EUR million | 2008 | 2007 |
|---|---|---|
| Pre-tax profit | 128.7 | 98.8 |
| Net profit after minority interests | 66.7 | 51.2 |
| Operating result | 155.0 | 122.4 |
| Cost/income ratio | 45.4% | 47.8% |
| Return on equity | 42.1% | 37.8% |
| Customer loans | 4,325 | 3,391 |
| Customer deposits | 3,132 | 2,873 |

The comparison with the previous year is only possible to a limited extent due to the inclusion of the results of Erste Card Club (ECC, formerly Diners Club Adriatic d.d.) from the second quarter of 2007.

Erste Bank Croatia's retail and SME business increased net profit after minorities by EUR 15.5 million or 30.4% (currency-adjusted: 28.5%) in comparison with 2007 to EUR 66.7 million. The notable 22.5% (currency-adjusted 20.8%) growth in net interest income to EUR 193.6 million, following EUR 158 million in the previous year, is driven by a positive development in customer business, both retail and corporate. The continuing positive trend in payment transactions at Erste Bank Croatia and in the ECC credit card business led to a EUR 11.6 million, or 17.5% (currency-adjusted 15.8%) rise in net commission income to EUR 77.6 million (previous year: EUR 66.0 million). The operating result improved by 26.7% to EUR 155.0 million, from EUR 122.4 million for the previous year. The 35% increase in risk provisions from EUR 18.3 million to EUR 24.7 million was entirely due to ECC, which was only included in the Group result for 9 months in 2007. The cost/income ratio further improved from 47.8% to 45.4% despite the 14.9% rise in administrative expenses to EUR 128.9 million, compared to EUR 112.2 million in the previous year due to a higher headcount and higher IT service and premises costs. Return on equity was 42.1%.

### Credit risk

Total credit risk related to the Croatian retail & SME business amounted to EUR 5.9 billion (no comparable figure is available for 2007 due to the change in segmentation during the course of the year) or 2.7% of Erste Group's total exposure. Compared to 2007, the structure of the portfolio did not change significantly; corporate and retail lending generated most of the growth and represented almost 70% of the total portfolio. The structure and quality of the portfolio remained satisfactory; accordingly, no major shifts occurred in the portfolio rating distribution. The non-performing loan ratio equalled 3.1%, while NPL coverage (excluding collateral) stood at 94.7%. At the end of the year, Erste Bank Croatia, submitted its Basel II IRB application to the Austrian regulator, the first among Croatian banks to do so, and is expecting approval by mid-2009.

## SERBIA

**Business profile.** The Serbia segment comprises the retail and SME business of Erste Bank Serbia (EBS), which has more than 200,000 clients and a network of 68 retail branches as well as 11 commercial and centres for corporate clients. Catering to the needs of a broad retail and mid-market corporate client base, the bank is well represented in the major business centres in Serbia. Erste Bank Serbia offers a wide range of financial products. The bank's current market share is some 3% in key product segments; however, its position is considerably stronger in alternative distribution channels, with an over 8% market share in electronic payments in Serbia.

### Economic review

After early parliamentary elections in May 2008, a new government was formed that proactively pursued the European integration of Serbia, thereby reducing political risk related to the country. During the second half of the year the spotlight turned to the global developments and their impact on the country's economy. Influenced by the crisis, real GDP growth slowed down in 2008 to 6.1%, from 7.1% in the previous year. The service sector's performance deteriorated, with the wholesale and retail segments recording the most significant slowdown. Manufacturing and construction activity remained supportive, while agricultural performance was rather disappointing. Export performance deteriorated towards the end of the year, due to the weakening in global demand.

After hitting a peak in mid-year, the second half brought moderating inflationary pressure, thanks to falling oil and agricultural product prices, thus bringing consumer price inflation back to the single-digits towards the end of the year. After a relatively stable first nine months of the year, the exchange rate declined in the wake of international developments. The stand-by arrangement with the IMF and NBS actions only managed to offset part of the depreciation. The NBS rate hike of 200 bps failed to produce more pronounced effects, with the NBS relying heavily on FX interventions to support the dinar.

External imbalances remained sizable, as the current account deficit widened to 16% of GDP. While import growth only declined marginally as a result of weaker domestic demand, a weaker than expected export performance also contributed. There was also pressure on the capital and current transfers account, given the increasing cost of debt financing and weaker remittances. FDI inflows also moderated in the second half of the year. While the rising external deficit was a clear negative, the budget deficit remained firmly under control at only 2% of GDP.

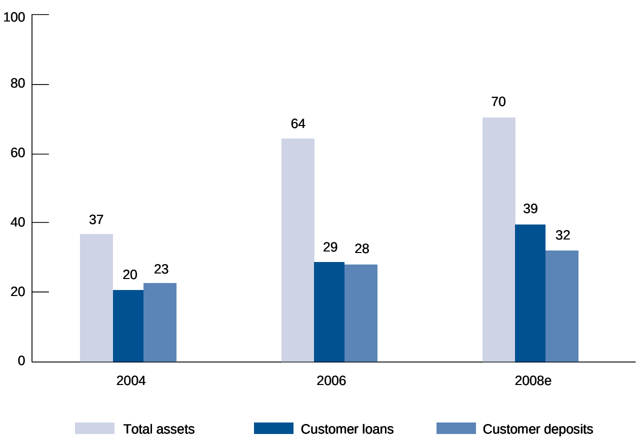
| Key economic indicators – Serbia | 2005 | 2006 | 2007 | 2008e |
|---|---|---|---|---|
| Population (ave, million) | 7.4 | 7.4 | 7.4 | 7.4 |
| GDP (nominal, EUR billion) | 14.0 | 14.6 | 16.4 | 17.1 |
| GDP/capita (in EUR thousand) | 1.9 | 2.0 | 2.2 | 2.3 |
| Real GDP growth (in %) | 6.0 | 5.6 | 7.1 | 6.1 |
| Private consumption growth (in %) | na | na | na | na |
| Exports (share of GDP in %) | 28.7 | 35.5 | 39.4 | 43.8 |
| Imports (share of GDP in %) | 59.2 | 69.6 | 78.7 | 89.0 |
| Unemployment (Eurostat definition, in %) | 20.8 | 20.9 | 18.1 | 14.0 |
| Consumer price inflation (ave, in %) | 16.1 | 11.8 | 6.5 | 11.7 |
| Short term interest rate (3 months eop, in %) | 22.9 | 15.6 | 10.3 | 18.9 |
| EUR FX rate (ave) | 82.9 | 84.2 | 80.0 | 81.4 |
| EUR FX rate (eop) | 85.5 | 79.0 | 79.2 | 88.6 |
| Current account balance (share of GDP, in %) | -8.4 | -9.8 | -13.2 | -16.3 |
| General government balance (share of GDP, in %) | 0.7 | -1.5 | -1.9 | -2.0 |

Source: Erste Group.

## Market review

A higher degree of uncertainty regarding capital inflows affected credit activity of the Serbian banking sector in 2008. The National Bank of Serbia (NBS) decided to ease monetary policy measures, by lifting the high 45% reserve requirement on FX liabilities in order to allow banks to tap foreign-based financing. In doing so, the NBS eased refinancing activity in the banking system, boosted FX inflows and offset increasing liquidity pressures. The capitalisation of the banking sector remained robust, with the capital adequacy ratio standing at just below 30%.

**Financial intermediation – Serbia (in % of GDP)**




Source: National Bank of Serbia, Erste Group.

Total banking assets as a percentage of GDP declined for the first time in 7 years and stood at 70%, a level still considered low compared to other CEE countries. In contrast to other CEE markets, corporate loans grew faster – at 43% – than household loans in 2008. The majority of the system's outstanding portfolio remained in local currency-based loans, although the growth of FX-lending outpaced that of local currency loans. Deposits increased by a more moderate 9%. As a special feature of the Serbian market, almost 70% of deposits were in FX, mainly due to remittances sent home by citizens working abroad.

Market shares of Erste Bank Serbia rose in 2008 in each category. Total asset market share went up to 2.6% from 2.2% a year earlier driven mainly by gains in retail lending. In line with the market, the vast majority of loans were local currency-based. Deposit growth at Erste Bank Serbia even outpaced that of loans with corporate FX deposits achieving the best ever gain, which resulted in market share of 5.0%. Altogether, EBS's deposit market shares stood between 2.6% and 3.3% at the end of 2008.

## Business review

**Strategy.** Erste Bank Serbia's main objective is to continuously increase market share in the key segments of retail as well as small and medium-sized corporate clients. To achieve this, the bank is developing a modern nation-wide distribution network. Continuous investments are also being made in personnel and product development. The bank's objective is to become recognised for the quality and efficiency of its services and position itself as a long-term partner of Serbia's growing middle class.

### Highlights in 2008

**Balanced business growth.** In 2008, the Serbian retail & SME business expanded its customer loan portfolio by 30% to EUR 340 million despite intense competition and in a restrictive monetary policy environment. Retail loans were the major growth contributor growing nearly 70% in 2008, while corporate loans also showed annual growth of more than 30%. Within retail loans housing loans more than doubled, albeit from a very low base. In the corporate segment Erste Bank Serbia was highly successful in developing business relationships with some of the largest and leading Serbian corporations, which are serviced through Erste Group's Corporate and Investment Banking division. The solid performance in lending was complemented by successful deposit gathering efforts. Total deposits grew by 23% in 2008: while retail deposits stagnated in a decreasing market, corporate deposits grew by over 80% leading to a significant strengthening of the bank's customer deposit base. Overall, Erste Bank Serbia maintained a good balance between loans and deposits.

**Continued strength in alternative channels.** In 2008 Erste Bank Serbia further strengthened its position in cards and alternative distribution channels. Issued cards and e-bank users tripled to more than 200,000 and over 33,000, respectively, giving Erste Bank Serbia a close to 10% market share in electronic payments. In addition, the bank accounted for some 50% of all SMS messages generated through the biggest independent provider of mobile-banking services in Serbia.

### Financial review

| in EUR million | 2008 | 2007 |
|---|---|---|
| Pre-tax profit | 5.9 | -3.4 |
| Net profit after minority interests | 4.7 | -2.7 |
| Operating result | 10.7 | -5.4 |
| Cost/income ratio | 76.2% | 123.2% |
| Return on equity | 10.5% | -10.2% |
| Customer loans | 340 | 261 |
| Customer deposits | 287 | 234 |

The Serbian retail & SME business increased its net interest income by EUR 17.3 million to EUR 33.5 million (following EUR 16.2 million in the previous year). This result was driven by a strong increase in customer business. Net commission income grew by 38.2% from EUR 5.4 million to EUR 7.4 million, supported by increased payment transactions. The improved trading result (EUR 4.1 million compared to EUR 1.5 million in the previous year) is based on higher income from foreign exchange transactions. Overall, operating result virtually doubled, from EUR 23.1 million in the previous year to EUR 45.0 million. This was despite the 20.7% increase in administrative expenses from EUR 28.4 million to EUR 34.3 million, due to the expansion of business operations. The operating result improved by EUR 16.1 million in comparison with 2007 to reach EUR 10.7 million. The rise in risk provisions from positive EUR 0.1 million to negative EUR 6.6 million reflected the trend in lending volume. Net profit after minorities increased by EUR 7.4 million, from EUR -2.7 million to EUR 4.7 million. Return on equity was 10.5%.

### Credit risk

Total exposure of the Serbian retail & SME business amounted to EUR 750 million in 2008 (no comparable figure is available for 2007 due to the change in segmentation during the course of the year). Notwithstanding the powerful growth of credit activity for two years in a row, non-performing loans as a percentage of total exposure amounted to 3.8%. This was due to fast growth in better-rated client segments and solid collection results for overdue loans. As of the third quarter of 2008 Erste Bank Serbia performed its provisioning calculations fully in line with IFRS39 standards. Accordingly, the resulting NPL coverage (excluding collateral) remained at a comfortable 136%.

## UKRAINE

**Business profile.** The Ukraine segment includes the business of Erste Bank Ukraine. The bank is a start-up operation that offers a wide range of standard banking services, particularly deposits, current accounts, car and mortgage loans, project financing and treasury services to its fast growing retail and corporate customer base. At the end of 2008 Erste Bank Ukraine serviced some 65,000 customers through a country-wide network of 135 branches. As the bank only launched its operations in 2007, its market shares are still small at about 1% of most product categories: in terms of total assets Erste Bank Ukraine ranks 23rd.

### Economic review

Ukraine was among the countries hardest hit by the financial crisis in the CEE region in 2008. Real GDP growth only reached 2.1%, significantly down from 7.6% in the previous year, while GDP/capita stood at only EUR 3,000. The substantial decline in growth is mainly a result of the collapse in steel prices in the second half of 2008, as metallurgy accounts for 35% of exports and 25% of GDP and state budget revenues. Other sectors, such as real estate and banking were also heavily affected by the crisis. The unemployment rate was also negatively influenced by redundancies in these sectors.

In November 2008, the International Monetary Fund approved a USD 16.4bn two year stand-by loan. The program touches on fiscal, monetary and inflation policies and banking regulation. Under the agreement Ukrainian authorities agreed to cut spending and to impose a floating currency exchange rate regime. This triggered a substantial devaluation of the local currency and ended a 7-year period of exchange rate stability against the US dollar to which the local currency is officially tied. As a result even average consumer price inflation more than doubled in 2008.

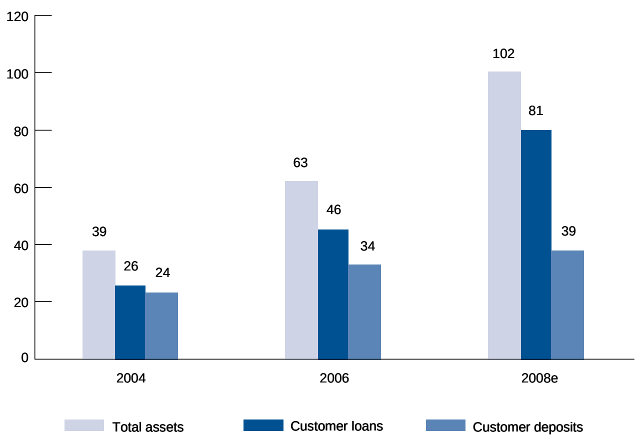
| Key economic indicators – Ukraine | 2005 | 2006 | 2007 | 2008e |
|---|---|---|---|---|
| Population (ave, million) | 46.9 | 46.6 | 46.4 | 46.1 |
| GDP (nominal, EUR billion) | 69.1 | 84.8 | 103.0 | 118.5 |
| GDP/capita (in EUR thousand) | 1.5 | 1.8 | 2.2 | 3.0 |
| Real GDP growth (in %) | 2.6 | 7.1 | 7.6 | 2.1 |
| Private consumption growth (in %) | 20.6 | 14.4 | 17.1 | 9.0 |
| Exports (share of GDP in %) | 39.8 | 36.0 | 34.7 | 38.5 |
| Imports (share of GDP in %) | 42.0 | 42.3 | 42.8 | 48.8 |
| Unemployment (Eurostat definition, in %) | 7.8 | 7.4 | 6.9 | 7.0 |
| Consumer price inflation (ave, in %) | 13.5 | 9.2 | 12.8 | 25.2 |
| Short term interest rate (3 months eop, in %) | 16.0 | 15.0 | 8.7 | 23.6 |
| EUR FX rate (ave) | 6.4 | 6.3 | 6.9 | 7.7 |
| EUR FX rate (eop) | 6.0 | 6.7 | 7.4 | 10.7 |
| Current account balance (share of GDP, in %) | 2.9 | -2.9 | -4.2 | -6.7 |
| General government balance (share of GDP, in %) | -1.8 | -0.7 | -1.1 | -1.2 |

Source: Erste Group.

## Market review

The Ukrainian banking market was heavily influenced by the global financial crisis, as previous growth rates were clearly unsustainable and heavily dependent on external funding. The agreement between the government and the IMF therefore included measures for the banking market such as an increase in the state guarantee for deposits, an increase in refinancing activities by the national bank, and higher transparency of publicly disclosed information from commercial banks. In addition, international experts were sent to the country to monitor and advise the biggest banks. Additional measures by the government included the creation of a UAH 40 billion stabilisation fund, which were earmarked for issuing loans to and conducting bail-outs of banks. The Ukrainian banking market remained highly fragmented in 2008 with about 180 institutions, none of which had a total asset market share of more than 12%.

### Financial intermediation – Ukraine (in % of GDP)




Source: National Bank of Ukraine, Erste Group.

Total banking assets rose at an annual growth rate of more than 50% in nominal terms for the fourth consecutive year, driven by advancing customer loans. Due to high local interest rates FX lending remained a key feature with USD-based loans accounting for the vast majority of loans. Since the crisis hit the country in the second half of 2008, growth rates have came down due to tightening lending standards and declining demand. Erste Bank Ukraine held market shares in most product categories of about 1% at the end of 2008.

## Business review

**Strategy.** Erste Bank Ukraine's main objective is to improve its market position on a sustainable basis and become a meaningful player in retail banking. Accordingly, the bank has adjusted its business model in response to the economic slowdown and the deteriorating banking market environment. This step was necessary as the bank's original business plan was built on quickly gaining market share in key product segments, such as housing loans, and establishing a substantial countrywide branch network. In light of recent events, though, Erste Bank Ukraine has halted network expansion, has scaled back its lending business and decided to put renewed focus on deposit collection.

### Highlights in 2008

**Solid capital adequacy, slowing loan growth.** Erste Bank Ukraine more than doubled its loan book in 2008 to over EUR 600 million mainly driven by growth in secured retail loans; while overall growth in the first nine months was brisk, lending crawled to a halt in the final quarter of the year on the back of rising interest rates and slowing demand. Despite the quickly changing market environment, Erste Bank Ukraine's liquidity position was solid. Equally, at 15%, the regulatory capital adequacy ratio remained substantially above the legally required limit of 10%.

**Strong deposit growth, but from a low base.** Total deposits nearly quadrupled in 2008 to EUR 45 million. Growth was especially pronounced in the second half of the year, as new products were launched and customers channelled funds from local banks to subsidiaries of international banks, which were perceived as more stable. The continued expansion of the deposit base will continue to be a major focus for the bank.

### Financial review

| in EUR million | 2008 | 2007 |
|---|---|---|
| Pre-tax profit | -33.4 | -23.0 |
| Net profit after minority interests | -28.7 | -19.1 |
| Operating result | -11.1 | -12.6 |
| Cost/income ratio | 124.5% | 198.5% |
| Return on equity | -67.1% | -103.1% |
| Customer loans | 616 | 286 |
| Customer deposits | 45 | 12 |

The Ukrainian retail & SME business increased operating income during the past financial year by EUR 32.3 million from EUR 12.8 million to EUR 45.1 million. This was driven primarily by net interest income, which at EUR 33.0 million more than quadrupled compared with the EUR 8.0 million of the previous year. The increase in fee income (from EUR 1.0 million to EUR 2.6 million) and growth of EUR 5.8 million in the trading result to EUR 9.5 million (following EUR 3.7 million in the previous year), which were based on a significant rise in income from foreign exchange transactions and fixed-interest securities, contributed to this result. The expansion of the branch network (from 71 branches in December 2007 to 135 in December 2008) and the significant rise in the number of employees (from 1,130 in December 2007 to 2,120 in 2008) led to an increase in administrative expenses by EUR 30.9 million to EUR 56.2 million. The net loss after minorities was EUR 28.7 million. Following the current economic developments in Ukraine further business expansion has been postponed. Consequently in 2009 headcount will be reduced by about 300 employees.

### Credit risk

Total exposure of the Ukrainian retail & SME segment amounted to EUR 747 million in 2008 (no comparable figure is available for 2007 due to the change in segmentation during the course of the year), or 0.4% of Erste Group's total credit risk. The share of non-performing loans stood at 1.6%, while NPL coverage (excluding collateral) remained at a comfortable 264%. The maintenance of solid asset quality was a direct result of focusing on collateralised mortgage lending, and in doing so following strict lending standards in terms of loan-to-value ratios and collateral valuation.

# Group Corporate and Investment Banking (GCIB)

**Business profile.** The Group Corporate and Investment Banking (GCIB) division was established in July 2007 as part of Erste Group's new group structure and its declared strategy to evolve from a "group of regional banks" into a "regional banking group". The GCIB division employs approximately 1,500 employees and provides a full range of banking services to the group's corporate clients throughout Central and Eastern Europe. The division operates on a fully divisionalised basis with a mix of industry and product expertise as well as local knowledge and experience. Product specialists from the division offer services in debt financing, equity capital markets, mergers and acquisitions, debt advisory, acquisition finance, infrastructure finance, project finance, syndication, real estate and leasing.

### Business review

**Strategy.** GCIB's strategic thrust is to seize opportunities from multi-national large corporate clients and real estate projects, institutional and public sector clients, as well as to foster the cross-fertilisation with other business lines, such as capital markets and retail & SME. The current market environment offers GCIB a unique opportunity to improve its competitive positioning in Erste Group's region through professional handling of scarce capital and liquidity resources as well as prudent advice in a difficult business environment. In order to efficiently serve clients and take advantage of market opportunities, GCIB is actively improving the quality of its team and deepening its regional cooperation model with professionals throughout the group.

#### Highlights in 2008

**Well balanced commercial real estate portfolio.** In 2008 the Group Real Estate unit continued to run a balanced portfolio valued at about EUR 18 billion, with about 70% of the exposure focused on low risk Austria and Czech Republic. Across the region more than 80% of the portfolio was located in the respective capitals/regional capitals. In terms of sector composition, the portfolio remained well diversified covering residential properties, of which about 2/3 was low risk residential exposure subsidised by the Austrian government, shopping centres, retail outlets and offices. Major projects for 2008 include an investment financing of two class A office buildings located in the central business district of Bucharest (EUR 43 million) and financing the development and construction of two luxury hotels and beach-front apartments near Dubrovnik (EUR 108 million).

**IMMORENT continues on growth path.** In the year 2008 IMMORENT, Erste Group's leasing arm, showed good progress in major development projects, such as "Straulest Area" (a Romanian joint venture that develops office and residential properties in the north of Bucharest). Other significant projects include the office buildings Gemini and Avenir in Prague, the Canon building and various high quality-residential projects in Austria. In real estate leasing IMMORENT further improved its market position, being one of the top 3 players in most of Erste Group's core markets.

**Reorganisation of investment banking.** During 2008 investment banking activities were restructured into three product areas: mergers & acquisitions, corporate & acquisition finance and equity capital markets. Each of these units is managed out of Vienna and Prague where the critical mass of staff is located. In each of Erste Group's eight core markets a country head leads the team of client executives in that country. Additionally, during 2008 GCIB has implemented a strategy to focus on lending, deposit taking and banking services across five key industries: metals & mining, Energy (oil & gas, utilities), construction & building materials, consumer goods & pharmaceuticals (including health care, food, beverages and retail) and financial sponsors. These units are covered by industry teams, which in turn are led by members of the client executive and investment banking teams. The Group Investment Banking unit's strategy is to work closely with the client executives in the Group Large Corporates unit for the ongoing coverage of corporate and institutional clients for strategic discussion and problem solving. Group Investment Banking markets and executes its products across all eight core countries of Erste Group.

For Group Investment Banking significant M&A deals in 2008 included an advisory mandate related to the acquisition of approximately 92% in Prague Stock Exchange (deal value of EUR 171 million) by the Vienna Stock Exchange and advisory to Telefonica O2 for the sale and lease-back of a real estate portfolio (deal value exceeding EUR 170 million). In addition, the Equity Capital Markets unit was involved in two landmark transactions: in the EUR 1.1 billion rights issue for Vienna Insurance Group on the Vienna Stock Exchange Erste Group acted as Joint Global Coordinator and Joint Bookrunner together with JPMorgan and Merrill Lynch. The shares were offered to the public in Austria and the Czech Republic and to international institutional investors (including the US). In the GBP 1.3 billion IPO of New World Resources N.V. on the London, Prague and Warsaw Stock Exchanges Erste Group acted as Co-Lead Manager and Regional Lead Manager for CEE.

**Riding the storm – International Business was doing comparatively well in 2008.** International Business continues to be responsible for all commercial lending activities outside Erste Group's core markets, as well as for business development and credit line management with banks and credit institutions. While lending activities are split regionally amongst the branches in London, New York and Hong Kong and the head office, bank coverage activities are centralised in Vienna.

The strategic raison d'être of the International Business remains portfolio diversification, i.e. to contribute to balancing the natural overweight the Group has in Central and Eastern Europe by the booking of assets and credit risks throughout most other parts of the world. The focus remained on developing a portfolio of high-quality asset classes, thereby improving the overall counterparty rating grid of the Group.

In the first 9 months of 2008 development was very promising; earnings and profits were well in excess of plan, and performance ratios again improved over comparative figures of 2007 – on track for another great year in a series of many. It was only when Icelandic banks defaulted that the outlook suddenly turned negative. Neither the corporate credit issues in the US nor those in Western Europe would have prevented the International Business making its budget. But with Iceland causing substantial provisioning requirements in this division as well as other divisions, International Business's pre-tax profit was substantially reduced in comparison to previous years.

Active credit portfolio and asset management as well as very careful asset selection after the market restarts will be the way forward in 2009.

### Financial review

| in EUR million | 2008 | 2007 |
|---|---|---|
| Pre-tax profit | 230.0 | 366.4 |
| Net profit after minority interests | 169.8 | 269.5 |
| Operating result | 451.8 | 370.8 |
| Cost/income ratio | 27.7% | 28.9% |
| Return on equity | 11.7% | 19.9% |
| Customer loans | 21,812 | 20,689 |
| Customer deposits | 5,087 | 5,630 |

The increase in net interest income in the GCIB segment, which, at EUR 460.6 million was 23.5% above the previous year's value (EUR 373.0 million), resulted from the expansion of business operations in the Large Corporates, Real Estate Austria, International Business and at the leasing subsidiary Immorent. The EUR 20.9 million rise in net commission income (from EUR 140.4 million in the previous year to EUR 161.3 million) was driven by higher income in International Business. The operating result improved by 21.9% from EUR 370.8 in the previous year to EUR 451.8 million - despite the fact that administrative expenses rose by EUR 22.4 million, from EUR 150.4 million to EUR 172.8 million. Risk provisions, which reached EUR 177.4 million, (2007: EUR 27.5 million), include the write-down of the exposure to the defaulted Icelandic banks and provisions against the deteriorating economic situation. Moreover, 2007 also benefited from the release of risk provisions. Other result was also impacted by market-related valuation requirements in the fair value portfolio and shows a decline of EUR 67.5 million to EUR -44.4 million. Net profit after minorities was 37.0% below the previous year's value of EUR 269.5 million, at EUR 169.8 million. The cost/income ratio improved from 28.9% to 27.7%. Return on equity was 11.7%.

### Credit risk

Total exposure in the Group Corporate and Investment Banking segment amounted to EUR 46.3 billion in 2008, or 21% of Erste Group's total credit risk. About 60% of exposure was related to corporate customers: 20% to financial institutions and 10% to federal, regional and local governments. In terms of regional distribution, roughly 50% of exposure was related to Central and Eastern Europe, while the remainder originated from the rest of the world. While asset quality remained satisfactory across the various business units, despite the deteriorating economic environment, the default of Icelandic banks resulted in an increase in non-performing loans; the NPL ratio amounted to 1.4%, while NPL coverage (excluding collateral) amounted to 62%.

## Group Markets (GM)

**Business profile.** The Group Markets segment comprises the divisionalised business units Group Treasury and Debt Capital Markets. Besides Erste Holding's own treasury activities, it also includes the treasury units of the CEE subsidiaries, the foreign branches in Hong Kong and New York, as well as results of the investment banks, in Poland, Hungary and Croatia and Erste Sparinvest.

### Business review

**Strategy.** The Group Capital Markets unit is the link between financial markets, customers and the bank, and views itself as the 'CEE specialist' for its customers in Austria and CEE. The success factors are the wide range of standard products, the CEE expertise, tailor-made, simply-structured products, competitive prices and professional advice. The goal is also to react in good time to changing economic situations, particularly with regard to products, and to continue the move – especially in the retail sector – towards easily understandable products with an emphasis on safety. The aim is to use the strong market position in the region, the know-how and proximity to the market as an advantage in trading. In this context, the diversification of trading activities as well as the active management of risk positions is the guarantee for sustainable results in the face of market volatility.

#### Highlights in 2008

**Divisionalisation of Group Capital Markets.** The concept of the group-wide divisionalisation of Group Capital Markets was successfully implemented at the start of 2008. The new structure led to a concentration of risk-taking and trading activities in group trading portfolios while at the same time preserving know-how related to regional markets by maintaining several trading locations. Higher flows led to improved market positioning; in this way, duplications were reduced and resources redeployed. Since summer 2008, customers have also been able to take advantage of a 24-hour service for FX orders. The relevant sales units with direct customer contacts continue to be based locally. In 2009, the technical integration of BCR, Erste Bank Ukraine and Erste Bank Serbia is to be examined and then implemented accordingly.

**New IT system for structured products.** The new IT system for structured products for interest rate structures has been deployed successfully since April 2008. The goal is to further increase the level of own production of innovative products tailored to meet customers' needs. In 2009, structured FX products are to be implemented, followed by share and commodities structures in 2010. In addition, all of the technical and process-oriented changes related to the separation of the Austrian business from the newly-founded holding company were successfully completed in 2008.

**Focus on simple and transparent products.** In spite of the difficult market situation in 2008, Group Capital Markets was able to post a successful year in the field of structured investment products. The product portfolio was swiftly modified towards easily understandable and safety-focused products. In the retail sector, products with a capital guarantee and a minimum interest rate such as Best Garant and High-End Maxi Sprinter were in great demand. In Hungary, we became the leading provider of certificates on the Hungarian market. For corporate customers, the sales initiatives with tailor-made solutions were successfully continued and extended. The range of capital market products to hedge against risks in the field of foreign currencies, interest rates and liquidity was continuously expanded and adapted.

**Flexible issuance policy ensures access to liquidity.** Debt issuance activity in the past year was influenced by a difficult market environment. Increasing uncertainty about the credit worthiness of banks led to substantially higher refinancing costs. Erste Group has successfully coped with the challenging situation through strategically focusing on the retail customer segment and private placements on the one hand, and benefiting from relatively small public issuance requirements – compared to similar sized institutions – on the other. As a result liquidity needs for the full year were already satisfied by the third quarter. The flexible issuance policy enabled Erste Group to push more cost efficient debt instruments, such as covered bonds and private placements. Overall 224 instruments totalling EUR 6.5 billion were issued. Compared to 2007, this was an increase of 60% and 22% in terms of number of issues and issue amount, respectively.

**Asset management suffers from market environment.** Erste Sparinvest, Erste Group's asset management arm, suffered heavily from outflows and declining asset prices in the past year. Funds under management declined by EUR 7.8 billion or 25.2% from EUR 30.8 billion to EUR 23 billion, even though market share decreased only marginally to 18.3%. Institutional outflows were more significant than those of private investors. As a result, retail funds accounted for EUR 14.2 billion, institutional and specialty funds for EUR 8.8 billion. Retail fund market share rose from 23.4% to 24.5%.

### Financial review

| in EUR million | 2008 | 2007 |
|---|---|---|
| Pre-tax profit | 211.1 | 303.0 |
| Net profit after minority interests | 151.5 | 227.5 |
| Operating result | 221.2 | 300.2 |
| Cost/income ratio | 47.0% | 37.2% |
| Return on equity | 79.8% | 152.3% |
| Customer loans | 0 | 0 |
| Customer deposits | 1,288 | 1,220 |

The EUR 154.9 million increase in net interest income, from EUR 108.9 million to EUR 263.8 million was primarily due to the very good result from the Money Market division in Vienna and the New York and Hong Kong branches. The declining net commission income (from EUR 155.8 million to EUR 137.8 million) and the – as expected – significantly lower trading result (EUR 15.8 million following EUR 213.2 million in the previous year) due to valuation requirements for securities in the trading portfolio, resulted in an operating result which was 26.3% below the previous year's value, at EUR 221.2 million. The 10.4% rise in administrative expenses from EUR 177.6 million to EUR 196.1 million was based on higher personnel and IT costs, which were, in turn, related to the set-up of the divisional structure. Net profit after minorities showed a decline by EUR 76.0 million or 33.4% to EUR 151.5 million. The cost/income ratio was at 47.0%, return on equity at 79.8%.

### Credit risk

Total exposure of the Group Markets segment amounted to EUR 15.9 billion or nearly 8% of Erste Group's total credit risk (no comparable figure is available for 2007 due to the change in segmentation during the course of the year). Non-performing loans rose compared to the previous year as a result of the financial crisis (Icelandic bank defaults) and the first-time inclusion of capital market investments in CEE. As securities investments are typically marked to market in the case of issuer default there are no significant risk provisions in this segment.

# Corporate Center (CC)

**Business profile.** The Corporate Center segment includes results from companies that cannot be assigned directly to a specific business segment, intra-group eliminations between the segments, linear depreciation of the customer base for BCR and Erste Card Club as well as one-off effects which cannot be assigned to a specific business segment without distorting comparability. The income from the VIG transaction (sale of the insurance division to the Vienna Insurance Group) is reported in the 2008 result of this segment. The complete write-off of intangible assets from the Ukraine and Serbia business, as well as the partial write-off of goodwill in Romania, in the total amount of EUR 566.8 million before tax are also assigned to this segment. Furthermore, the ALM of Erste Group Bank AG (holding) is also attributed to this segment. The results of the local asset/liability management (ALM) units continue to be allocated to the respective individual segments.

### Financial review

| in EUR million | 2008 | 2007 |
|---|---|---|
| Pre-tax profit | -1,209.3 | -299.6 |
| Net profit after minority interests | -341.9 | -211.0 |
| Operating result | -298.9 | -141.0 |
| Cost/income ratio | -123.1% | -194.6% |
| Return on equity | -8.7% | -5.5% |

In the net interest income, the positive contribution from the unwinding effect in the amount of EUR 85.2 million was more than offset by the negative contribution from ALM due to adverse market developments. Overall, the unwinding did not affect the result, as the positive effect in net interest income simultaneously resulted in risk provisions of the same amount. The development in commission income and administrative expenses was mainly due to intra-group elimination of banking support operations. The administrative expenses were particularly impacted by group projects and costs in relation to the setup of the holding structure. Other result included the linear depreciation of BCR's customer base, as well as the customer base depreciation of the Erste Card Club, totalling EUR 75.7 million and valuation requirements for financial assets. The net profit from discontinued operations, in the amount of EUR 631.6 million, related to the net income after tax from the sale of the insurance business to the Vienna Insurance Group.