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Consolidated Financial Statements 2008 (IFRS)

I. Consolidated Income Statement of Erste Group for the year ended 31 December 2008

in EUR thousand	Notes	2008	2007
Interest and similar income		11,944,535	9,665,433
Interest and similar expenses		(7,052,896)	(5,743,405)
Income from associates accounted for at equity		21,509	23,759
Net interest income	**1**	**4,913,147**	**3,945,787**
Risk provisions for loans and advances	2	(1,071,436)	(454,727)
Fee and commission income		2,426,056	2,240,610
Fee and commission expenses		(455,004)	(382,742)
Net fee and commission income	**3**	**1,971,053**	**1,857,868**
Net trading result	4	114,697	351,139
General administrative expenses	5	(4,001,898)	(3,642,097)
Other operating result	6	(778,761)	(169,281)
Result from financial assets - at fair value through profit or loss	7	(295,629)	(47,832)
Result from financial assets - available for sale	8	(213,800)	50,969
Result from financial assets - held to maturity	9	(61,133)	725
Pre-tax profit from continuing operations		**576,240**	**1,892,551**
Taxes on income	10	(177,302)	(371,004)
Post-tax profit from continuing operations		**398,937**	**1,521,547**
Profit from discontinued operations net of tax	11	639,665	28,407
Net profit before minority interests		**1,038,602**	**1,549,954**
Minority interests		(178,988)	(375,259)
Net profit after minority interests	**12**	**859,614**	**1,174,695**

Earnings per share

Earnings per share constitute net profit after minority interests divided by the average number of ordinary shares outstanding. Diluted earnings per share represent the maximum potential dilution (increase in the average number of shares) which would occur if all granted subscription and conversion rights were exercised (also see Note 36, Total equity).

		2008	2007
Net profit after minority interests	in EUR thousand	859,614	1,174,695
Thereof continuing operations		250,549	1,152,237
Thereof discontinued operations		609,065	22,458
Weighted average number of shares outstanding	Number	313,218,568	312,039,861
Earnings per share	**in EUR**	**2.74**	**3.76**
Thereof continuing operations		**0.80**	**3.69**
Thereof discontinued operations		**1.94**	**0.07**
Weighted average number of shares taking into account the effect of dilution	Number	313,489,516	312,716,331
Diluted earnings per share	in EUR	2.74	3.76
Thereof continuing operations		0.80	3.68
Thereof discontinued operations		1.94	0.07
Dividend per share	in EUR	0.65	0.75

II. Consolidated Balance Sheet of Erste Group at 31 December 2008

in EUR thousand	Notes	2008	2007
ASSETS			
Cash and balances with central banks	13	7,556,245	7,615,030
Loans and advances to credit institutions	14	14,344,033	14,937,124
Loans and advances to customers	15	126,184,918	113,955,901
Risk provisions for loans and advances	16	(3,782,793)	(3,296,453)
Trading assets	17	7,534,383	6,636,691
Financial assets - at fair value through profit or loss	18	4,057,770	4,533,598
Financial assets - available for sale	19	16,033,080	16,200,397
Financial assets - held to maturity	20	14,145,411	16,843,138
Investments of insurance companies	21	0	8,054,004
Equity holdings in associates accounted for at equity	22	260,396	285,064
Intangible assets	23	4,804,486	5,962,277
Property and equipment	23	2,385,994	2,288,706
Tax assets	24	858,624	446,095
Assets held for sale	25	525,578	0
Other assets	23, 26	6,533,020	6,057,269
Total assets		**201,441,145**	**200,518,841**
LIABILITIES AND EQUITY			
Deposits by banks	27	34,671,550	35,164,647
Customer deposits	28	109,304,601	100,116,391
Debt securities in issue	29	30,483,574	31,078,230
Trading liabilities	30	2,519,554	1,755,711
Underwriting provisions	31	0	8,638,277
Other provisions	32	1,620,418	1,791,722
Tax liabilities	24	389,145	329,296
Liabilities associated with assets held for sale	33	342,855	0
Other liabilities	34	4,967,572	4,652,481
Subordinated liabilities	35	6,046,632	5,588,810
Total equity	36	11,095,244	11,403,276
Shareholders‘ equity		8,078,771	8,451,935
Minority interests		3,016,473	2,951,341
Total liabilities and equity		**201,441,145**	**200,518,841**

III. Consolidated Statement of Changes in Total Equity

A) CONSOLIDATED STATEMENT OF CHANGES IN TOTAL EQUITY FOR THE YEAR ENDED 31 DECEMBER 2008

in EUR million	Subscribed capital	Additional paid-in capital	Retained earnings and other reserves	Total Share-holder´s equity	Minority interests	Total equity 2008
Total equity at 31 December 2007	**632**	**4,557**	**3,263**	**8,452**	**2,951**	**11,403**
Changes in own shares			(61)	(61)		(61)
Purchase			(1,063)	(1,063)		(1,063)
Sale			996	996		996
Result			6	6		6
Dividends			(235)	(235)	(74)	(309)
Capital increases[1)]	2	26		28		28
Net profit before minority interests			860	860	179	1,039
Income and expenses recognised directly in equity			(965)	(965)	(145)	(1,110)
Thereof Currency translation			(534)	(534)	(77)	(611)
Change in interest in subsidiaries				0	105	105
Total equity at 31 December 2008	**634**	**4,583**	**2,862**	**8,079**	**3,016**	**11,095**
Cash flow hedge reserve at 31 December 2008				70	21	91
Available for sale reserve at 31 December 2008				(1,073)	(406)	(1,479)
Actuarial gains/losses from long-term employee provisions at 31 December 2008				(254)	(112)	(366)
Deferred tax reserve at 31 December 2008				380	125	505

1) Capital increase in connection with the Employee Share Ownership Plan (ESOP) and Management Share Option Plan (MSOP).

For further details see note 36, total equity.

B) CONSOLIDATED STATEMENT OF CHANGES IN TOTAL EQUITY FOR THE YEAR ENDED 31 DECEMBER 2007

in EUR million	Subscribed capital	Additional paid-in capital	Retained earnings and other reserves	Total Share-holder´s equity	Minority interests	Total equity 2007
Total equity at 31 December 2006	**630**	**4,514**	**2,835**	**7,979**	**2,925**	**10,904**
Changes in own shares			(65)	(65)		(65)
Purchase			(1,170)	(1,170)		(1,170)
Sale			1,076	1,076		1,076
Result			29	29		29
Dividends			(202)	(202)	(145)	(347)
Capital increases[1)]	2	43		45		45
Net profit before minority interests			1,175	1,175	375	1,550
Income and expenses recognised directly in equity			(480)	(480)	(218)	(698)
Thereof Currency translation			(224)	(224)	(40)	(264)
Change in interest in subsidiaries					14	14
Total equity at 31 December 2007	**632**	**4,557**	**3,263**	**8,452**	**2,951**	**11,403**
Cash flow hedge reserve at 31 December 2007				(28)	(17)	(45)
Available for sale reserve at 31 December 2007				(321)	(275)	(596)
Actuarial gains/losses from long-term employee provisions at 31 December 2007				(256)	(116)	(372)
Deferred tax reserve at 31 December 2007				159	104	263

1) Capital increase in connection with the Employee Share Ownership Plan (ESOP) and Management Share Option Plan (MSOP).

Income and expenses recognised directly in equity

in EUR million	2008	2007
Net profit before minority interests	**1,039**	**1,550**
Available for sale-reserve (including currency translation)	(883)	(557)
Cash flow hedge-reserve (including currency translation)	136	(14)
Actuarial gains and losses	6	(25)
Deferred taxes on items recognised directly in equity	242	162
Currency translation	(611)	(264)
Total gains and losses recognised directly in equity	**(1,110)**	**(698)**
Total result	**(71)**	**852**
Shareholders' equity	(105)	695
Minority interests	34	157

Changes in number of shares (see Note 36)

in units	2008	2007
Shares outstanding at 1 January	**294,744,718**	**296,014,126**
Acquisition of own shares	(9,780,615)	(21,713,124)
Disposal of own shares	3,396,265	19,450,956
Capital increases due to ESOP and MSOP	723,818	992,760
Shares outstanding at 31 December	**289,084,186**	**294,744,718**
Own shares	27,928,577	21,544,227
Number of shares at 31 December	**317,012,763**	**316,288,945**
Weighted average number of shares outstanding	313,218,568	312,039,861
Dilution due to MSOP/ESOP	270,948	676,470
Weighted average number of shares taking into account the effect of dilution	313,489,516	312,716,331

IV. Cash Flow Statement

in EUR million	2008	2007
Profit from continuing operations	**399**	**1,522**
Profit from discontinued operations	**640**	**28**
Net profit before minority interests	**1,039**	**1,550**
Non-cash adjustments for items in net profit before minority interests		
Depreciation, amortisation, impairment and reversal of impairment	1,359	485
Allocation to and release of provisions (including risk provisions)	1,234	623
Gains / (losses) from the sale of assets	191	(26)
Other adjustments	(1,554)	(731)
Changes in assets and liabilities from operating activities after adjustment for non-cash components		
Loans and advances to credit institutions	885	1,880
Loans and advances to customers	(10,803)	(15,932)
Trading assets	(833)	(424)
Financial assets - at fair value through profit or loss	180	350
Financial assets - available for sale	(137)	(2,086)
Other assets from operating activities	(2,132)	(1,578)
Deposits by banks	(875)	(2,863)
Customer deposits	7,693	8,418
Debt securities in issue	(840)	9,156
Trading liabilities	672	527
Other liabilities from operating activities	1,058	1,232
Cash flow from operating activities	**(2,863)**	**581**
Thereof discontinued operations	**468**	**(393)**
Proceeds of disposal		
Financial assets - held to maturity and associated companies	4,931	2,917
Property and equipment, intangible assets and investment properties	810	679
Acquisition of		
Financial assets - held to maturity and associated companies	(3,072)	(2,782)
Property and equipment, intangible assets and investment properties	(930)	(933)
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	(38)	(205)
Disposal of subsidiaries	1,145	0
Cash flow from investing activities	**2,846**	**(324)**
Thereof discontinued operations	**(355)**	**649**
Capital increases	28	45
Dividends paid	(235)	(202)
Other financing activities (mainly changes of subordinated liabilities)	572	356
Cash flow from financing activities	**365**	**199**
Thereof discontinued operations	**19**	**(305)**
Cash and cash equivalents*) at beginning of period	**7,615**	**7,378**
Cash flow from operating activities	(2,863)	581
Cash flow from investing activities	2,846	(324)
Cash flow from financing activities	365	199
Effect of currency translation	(407)	(219)
Cash and cash equivalents*) at end of period	**7,556**	**7,615**
Cash flows related to taxes, interest and dividends	**4,571**	**3,602**
Payments for taxes on income	(342)	(344)
Interest received	11,744	9,493
Dividends received	222	196
Interest paid	(7,053)	(5,743)

*) Cash and cash equivalents are equal to cash in hand and balances with central banks.

Cash flow from disposal and acquisition of subsidiaries

in EUR million addition/decrease from acquisition/disposal Successive share purchase	Insurance[1]	Investbanka 24.81%	ABS Banka 8.09%	Savings Banks within Cross Guarantee System 0.00%	Total
Cash and cash equivalents	0	9		27	
Loans and advances to credit institutions	0	14		278	
Loans and advances to customers	0	76		1,430	
Risk provisions for loans and advances	0	(2)		(45)	
Financial assets - available for sale	0	7		615	
Investments of insurance companies	(8,992)	0			
Property and equipment	(1)	5		29	
Intangible assets	(199)	5		0	
Other assets	(352)	3		63	
Deposits by banks	0	29		352	
Customer deposits	0	66		1,429	
Debt securities in issue	0	0		245	
Underwriting provisions	(8,939)	0		0	
Other liabilities	(423)	3		94	
Total equity	(182)	20		276	
Shares purchased/disposed		24.81%	8.09%	0.00%	
Shareholders' equity		5	6	0	
Minority interests		15	16	276	
Total		**20**	**22**	**276**	
Goodwill		18	14	0	
Purchase price		38[2]	36[2]	0	74
Selling price	1,145[2]			0	1,145
Cash and cash equivalents	0	9		27	(36)
Cash flow from acquisition of companies net of cash and cash equivalents acquired					**38**
Cash flow from disposal of subsidiaries					**1,145**

1) In the course of selling insurance business following entities were sold: Pojišťovna České spořitelny, BCR Asigurari und BCR Asigurari de Viata
2) Total purchase / selling price was settled in cash.

Above disclosed shares refer to directly and indirectly held shares of Erste Group Bank AG.

V. Notes to the Consolidated Financial Statements of Erste Group

A. GENERAL INFORMATION

Erste Group Bank AG is Austria's oldest savings bank and the largest wholly privately-owned Austrian credit institution listed on Vienna Stock Exchange. It is also quoted on Prague Stock Exchange (since October 2002) and on Bucharest Stock Exchange (since 14 February 2008). The registered office of Erste Group Bank AG is located at Graben 21, 1010 Vienna, Austria.

Erste Group offers a complete range of banking and other financial services, such as saving, asset management (including investment funds), consumer credit and mortgage lending, investment banking, securities and derivatives trading, portfolio management, project finance, foreign trade financing, corporate finance, capital market and money market services, foreign exchange trading, leasing and factoring.

With the registration in the Companies Register on 9 August 2008, the demerger of the Austrian business of "Erste Bank der oesterreichischen Sparkassen AG" into a separate company became legally effective. This was followed in the subsequent months by all the steps needed for the organisational and legal implementation of the holding company structure from the middle of 2008 as planned. The result is a clear division of responsibilities between Erste Group Bank AG, which now acts as the holding company, and its subsidiaries in the group countries, which can now focus fully on local customer business.

This reorganisation of Erste Group also leads to a new segmentation for reporting purposes. In line with the new Group structure, the reporting is now based on four primary segments: Retail & SME, Group Corporate & Investment Banking, Group Markets and Corporate Center. Changes in segmentation were applied retrospectively.

The consolidated financial statements of Erste Group for the 2008 financial year and the comparable data for 2007 were prepared in compliance with applicable International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) published by the International Accounting Standards Board (IASB) and with their interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC, formerly Standing Interpretations Committee or SIC) as adopted by the European Union, thus satisfying the requirements of section 59a Austrian Banking Act and section 245a Austrian Commercial Code.

Except as otherwise indicated, all amounts are stated in millions of euros. The tables in this report may contain rounding differences.

The Supervisory Board approved the consolidated financial statements on 30 March 2009 for publication.

B. ACQUISITIONS AND DISPOSALS

Acquisitions in 2008

With effect from 12 January 2008, the following savings banks joined the cross-guarantee system (the Haftungsverbund) of the Austrian savings banks: Sparkasse Mittersill Bank AG, Sparkasse der Stadt Kitzbühel, Sparkasse Reutte AG and Sparkasse Schwaz AG. Since that date, all four savings banks are now included in the consolidated financial statements of Erste Group. Erste Group holds no equity interest in these savings banks.

In aggregate, these four savings banks' identifiable assets acquired and liabilities assumed, measured at fair value, had the following composition at the time of initial consolidation:

in EUR million	Carrying amount	Fair value adjustment	Fair value
Cash and balances with central banks	26.6		26.6
Loans and advances to credit institutions	278.1		278.1
Loans and advances to customers	1,430.0		1,430.0
Risk provisions for loans and advances	(44.7)	(0.5)	(45.2)
Property and equipment	29.1		29.1
Other assets	664.8	13.6	678.4
TOTAL ASSETS	**2,383.8**	**13.1**	**2,396.9**
Deposits by banks	352.2		352.2
Customer deposits	1,428.9		1,428.9
Debt securities in issue	245.0		245.0
Other liabilities	86.0	8.3	94.3
Total equity	271.6	4.8	276.4
TOTAL LIABILITIES AND EQUITY	**2,383.8**	**13.1**	**2,396.9**

The net asset value adjustments pertain to four items: risk provisions for loans and advances, measurement of securities, employee benefit provisions, and the related deferred taxes.

The contribution of the four savings banks in the cross-guarantee system to the operating income of Erste Group from the time of initial consolidation was EUR 60.9 million; their contribution to net profit after minority interest was EUR 0 million.

Steiermärkische Sparkasse acquired a total of 99.22% of Investbanka a.d. Skopje (24.81% directly and indirectly held shares by Erste Group Bank AG), Macedonia. Investbanka a.d. Skopje is included in the consolidated financial statements of Erste Group with effect from 1 October 2008, by full consolidation.

The total purchase price for the acquisition of the shares of Investbanka a.d. Skopje, including transaction costs, was about EUR 38.5 million. The resulting goodwill, after net asset value adjustments, was MKD 1,136.5 million or EUR 18.4 million.

The net asset value adjustments in connection with the purchase price allocation pertain primarily to the recognition of the customer relationships acquired and to the related deferred taxes.

Customer relationships are recognised separately from goodwill. The customer relationships were valued at MKD 277.5 million or EUR 5 million at initial consolidation and are amortised on a straight-line basis over the expected useful life of 10 years.

The contribution of Investbanka a.d. Skopje to the operating income of Erste Group since the time of initial consolidation was EUR 1.8 million; after amortisation of customer relationships, its contribution to net profit after minority interests was EUR 0 million. Had Investbanka a.d. Skopje already been included in Erste Group's consolidated financial statements from 1 January 2008, its contribution to operating profit would have been EUR 6.2 million. In the same case, net profit after minority interests and after amortisation of customer relationships would have been EUR 0 million.

The identifiable assets acquired and liabilities assumed, measured at fair value, had the following composition at the time of initial consolidation:

in EUR million	Carrying amount	Fair value adjustment	Fair value
Loans and advances to credit institutions	13.9		13.9
Loans and advances to customers	76.3		76.3
Risk provisions for loans and advances	(2.5)		(2.5)
Customer relationships	0.0	5.0	5.0
Property and equipment	5.2		5.2
Other assets	20.3		20.3
TOTAL ASSETS	**113.2**	**5.0**	**118.2**
Deposits by banks	29.4		29.4
Customer deposits	65.8		65.8
Other liabilities	2.2	0.5	2.7
Total equity	15.8	4.5	20.3
TOTAL LIABILITIES AND EQUITY	**113.2**	**5.0**	**118.2**

The goodwill associated with Investbanka a.d. Skopje was determined as follows:

in EUR million	2008
Purchase price incl. additional expenses	38.5
Shareholder's equity adjusted	(5.0)
Minority interests restated	**(15.1)**
Total	**(20.1)**
Goodwill	**18.4**

In 2008, Steiermärkische Sparkasse acquired a further 32.34% of ABS Banka d.d. (8.09% directly and indirectly held shares by Erste Group Bank AG), Bosnia-Herzegovina, and thus owned 95.29% of the shares of ABS Banka d.d. at 31 December 2008. The total purchase price (including transaction costs) of the 32.34% stake was about EUR 35.9 million, resulting in goodwill at the acquisition date of BAM 27.9 million or EUR 14.3 million.

Disposals in 2008

On 15 September 2008, following the signing of the contract on 26 March 2008, Erste Group Bank AG largely completed the sale of its insurance holdings in Central and Eastern Europe (including s Versicherung in Austria) to Vienna Insurance Group, having received approval from the competition regulators and local insurance authorities. Upon final approval of the Romanian competition and insurance supervisors, the Romanian portion of the transaction was concluded on 17 December 2008. Under the terms of the transaction, Erste Group and the local subsidiaries retrospectively retain a 5% ownership interest in the local life insurance companies. The 2008 contribution from this transaction to Erste Group's net profit after minority interests was EUR 601.5 million.

In addition to the sale of the insurance subsidiaries, a mutual sales cooperation agreement was concluded with Vienna Insurance Group for a term of 15 years. The value of the sales agreement is about EUR 300 million. This amount will be deferred over the 15-year period in accordance with IFRS.

Acquisitions in 2007

In 2007 Erste Group acquired 100% of Open Joint-Stock Company "Erste Bank" (formerly Bank Prestige), Ukraine. Open Joint-Stock Company "Erste Bank" is included in the consolidated financial statements of Erste Group from the transaction's closing date of 24 January 2007.

The total purchase price of Open Joint-Stock Company "Erste Bank", including transaction costs, was EUR 81.5 million. This gave rise to goodwill of UAH 230.8 million or EUR 35.4 million.

On 2 April 2007 the purchase agreement was signed for the acquisition of 100% of Erste Card Club d.d. (formerly Diners Club Adriatic d.d. Croatia), one of the leading Croatian credit card companies. Erste Card Club d.d. is included in the consolidated financial statements of Erste Group from that date. The purchase price including transaction costs was EUR 152.2 million. This gave rise to goodwill of HRK 602.7 million or EUR 81.4 million after net asset value adjustments.

At the end of December 2007, 41% of the shares of Erste Card Club d.d. were sold by Erste Group Bank AG to Steiermärkische Sparkasse, a fully consolidated subsidiary of Erste Group.

Since April 2007, Steiermärkische Sparkasse acquired a further 14.45% of ABS Banka d.d., Bosnia-Herzegovina, bringing to 62.94% total interest in ABS Banka d.d. at the end of 2007. ABS Banka d.d. is included in the consolidated financial statements of Erste Group with effect from 3 April 2007, by full consolidation.

The total purchase price for the shares of ABS Banka d.d., including transaction costs, was about EUR 33.0 million. The resulting goodwill, after net asset value adjustments, was BAM 30.5 million or EUR 16.5 million.

Having joined the cross-guarantee system, two additional savings banks – Sparkasse Ried im Innkreis-Haag am Hausruck and Waldviertler Sparkasse von 1842 AG – are included in the consolidated financial statements of Erste Group since 31 December 2007. Erste Group does not hold any equity interests in these savings banks.

Shareholdings in significant companies and their representation in the consolidated financial statements are detailed in Note 54.

C. ACCOUNTING POLICIES

a) BASIS OF CONSOLIDATION

All subsidiaries directly or indirectly controlled by Erste Group Bank AG are fully consolidated in the group financial statements, on the basis of the subsidiaries' annual accounts at and for the year ended 31 December 2008.

Erste Group Bank AG is a member of the cross-guarantee system (or "Haftungsverbund") of the Austrian savings bank sector. At the balance sheet date almost all of Austria's savings banks, in addition to Erste Group Bank AG and Erste Bank der oesterreichischen Sparkassen AG, formed part of this cross-guarantee system.

The provisions of the agreement governing the cross-guarantee system are implemented by a steering company, Haftungsverbund GmbH. Erste Group Bank AG indirectly always holds at least 51% of the subscribed capital of the steering company, through Erste Bank der oesterreichischen Sparkassen AG. Two of the four members of the steering company's management, including the CEO, who has the casting vote, are appointed by Erste Bank der oesterreichischen Sparkassen AG. The steering company is vested with the power to monitor the common risk policies of its members. As well, if a member encounters serious financial difficulties – this can be discerned from the specific indicator data that is continually generated – the steering company has the mandate to provide support measures and/or to intervene, as required, in the business management of the affected member savings bank. As Erste Group Bank AG owns the controlling interest in the steering company, it exercises control over the members of the cross-guarantee system. In accordance with IFRS, all cross-guarantee system members are therefore fully consolidated.

Investments in companies over which Erste Group Bank AG exercises a significant influence (associated undertakings, or "associates") are accounted for by the equity method. As a general rule, significant influence is given by an ownership interest of between 20% and 50%. Joint ventures are also included using the equity method (IAS 31.38). Under the equity method, an interest in an associate is recognised in the balance sheet at cost plus post-acquisition changes in the group's share of the net assets of the entity. The group's share of the associate's profit or loss is recognised in the income statement. Entities accounted for by the equity method are recognised largely on the basis of annual financial statements at and for the year ended 31 December 2008.

Business combinations are accounted for using the purchase method, by offsetting the acquisition cost against the parent company's share of identifiable assets and liabilities. The subsidiary's assets and liabilities are measured at their individual fair values at the acquisition date. The difference between acquisition costs and net assets at fair value has been recognised as goodwill since 1 January 1995. Goodwill is tested for impairment annually as required under IFRS 3 (Business Combinations) in conjunction with IAS 36 (Impairment of Assets) and IAS 38 (Intangible Assets).

Minority interests are determined on the basis of assets and liabilities measured at fair value. Minority interests are disclosed separately both in the income statement and balance sheet. In the balance sheet, they are shown within total equity, separately from the equity attributable to shareholders of the parent.

Intercompany balances, intercompany income and expenses and intercompany profits and losses are eliminated.

b) ACCOUNTING AND MEASUREMENT METHODS

An asset is recognised in the balance sheet if it is probable that it will generate a future economic benefit for Erste Group and if its cost can be measured reliably.

A liability is recognised in the balance sheet if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and if the amount to be paid can be measured reliably.

Regular way (spot) purchases and sales of financial assets are recognised at settlement date.

Foreign currency translation

The consolidated financial statements of Erste Group are stated in euros, the group's functional currency. This is the currency of the primary business environment in which Erste Group operates.

Assets and liabilities stated in foreign currencies and outstanding foreign currency spot transactions are translated at ECB reference rates; outstanding forward exchange contracts are translated at the forward rate at the balance sheet date.

Currency translation of the financial statements of foreign subsidiaries reporting in foreign currencies and of intangible assets accounted within the acquisition of subsidiaries (goodwill, customer relationships and brand), the ECB reference rate of exchange at the balance sheet date is used for translating the balance sheet and the average rate for the year is used for translating the income statement. Currency translation gains and losses resulting from the consolidation of foreign subsidiaries in the group accounts are recognised directly in equity. When a foreign subsidiary is sold, the cumulative amount recognised in equity for currency translation pertaining to the foreign subsidiary is taken to income.

Net interest income

Interest and similar income mainly includes interest income in the narrow sense on loans and advances to credit institutions and customers, on balances at central banks and on bonds and other interest-bearing securities. Also reported in interest and similar income are current income from shares and other equity-related securities (especially dividends), income from other investments in companies and non-consolidated subsidiaries, income from investment properties and interest-like income calculated in the same manner as interest.

Interest income from impaired loans is calculated by applying the original effective interest rate and is also reported in interest and similar income.

Interest and similar expenses mainly include interest paid on deposits by banks and customer deposits, deposits of central banks, debt securities in issue and subordinated debt (including hybrid issues). This item also includes interest-like expenses calculated in the same way as interest.

Interest income (if deemed collectible) and interest expenses are recognised as they accrue. Income from investments in companies is recognised when the right to receive payment comes into being.

Income from associates accounted for at equity is likewise included in net interest income. Impairment losses, reversal of impairment losses, and realised gains and losses on investments in associates accounted for at equity are reported in other operating result.

Risk provisions for loans and advances

This item includes allocations to and releases of specific and portfolio risk provisions for loans and advances for both on-balance-sheet and off-balance-sheet transactions. Also reported in this item are direct write-offs of loans and advances as well as recoveries on loans written off.

Net fee and commission income

Net fee and commission income consists of income and expenses from services business that were accrued in the reporting period. It includes income and expenses mainly from fees and commissions payable or receivable for payment services, securities brokerage and lending business, as well as from insurance brokerage, mortgage brokerage and foreign exchange transactions.

Net trading result

Net trading result includes all results from securities, derivatives classified as held for trading and currencies. These include realised gains and losses, unrealised changes in fair value, and dividend income and net interest income from trading portfolios.

General administrative expenses

General administrative expenses represent the following expenses accrued in the reporting period: personnel and other administrative expenses, as well as depreciation and amortisation. Not included are any amortisation of customer relationships and impairment of goodwill.

Personnel expenses include wages and salaries, bonuses, statutory and voluntary social security contributions, staff-related taxes and levies, and expenses for severance benefits, pensions and jubilee benefits (including amounts allocated to and released from provisions).

Other administrative expenses include information technology expenses, expenses for office space, office operating expenses, advertising and marketing, expenditures for legal and other consultants as well as sundry other administrative expenses.

Other operating result

Other operating result reflects all other income and expenses not attributable to Erste Group's ordinary activities. This includes especially impairment losses or any reversal of impairment losses as well as results on the sale of property and equipment, amortisation and impairment of customer relationships, any impairment losses on goodwill, and impairment losses (and any reversal of impairment losses) on other intangible assets. In addition, other operating result encompasses the following: expenses for other taxes and for deposit insurance contributions; income from the release of and expenses for allocations to other provisions; impairment losses (and their reversal if any) on investments in associates accounted for at equity and realised gains and losses from the disposal of equity-accounted investments.

Result from financial assets – at fair value through profit or loss

This item consists of results of fair value measurement of and realised gains or losses from securities, derivatives, investments in companies, and credit assets/liabilities assigned to the fair value portfolio (see Note: Financial assets – at fair value through profit or loss).

Result from financial assets – available for sale

The item represents – for available for sale securities and investments in companies – gains or losses on disposal as well as impairment losses and certain types of reversal of impairment loss resulting from a change in the issuer's credit rating (see Note: Financial assets – available for sale).

Result from financial assets – held to maturity

This item is composed of gains and losses from securities classified as held to maturity (see Note: Financial assets – held to maturity). This includes especially impairment losses, and any reversal of impairment losses, resulting from a change in the issuer's credit rating. The reversal of an impairment loss cannot increase the asset's value beyond its amortised cost.

Taxes on income

Taxes on income consist of current and deferred income tax.

Post-tax profit from discontinued operations

This item comprises the net profit from the insurance business up to the time of its disposal, the gain on disposal of the insurance business and the related taxes.

Loans and advances

Loans and advances to credit institutions and to customers are measured at amortised cost, or in case the fair value option was applied, loans and advances to credit institutions and to customers are measured at fair value. Eventual direct write-offs of credit losses are accounted as deductions from the respective carrying amounts or fair values.

The allowances for impairment of loans and advances, inasmuch as it relate to on-balance-sheet assets, are disclosed as risk provisions for loans and advances on the face of the balance sheet.

Interest bearing securities not quoted in an active market are also reported in loans and advances.

Risk provisions for loans and advances

The special risks inherent in the banking business are taken into account as required through an allowance for impairment of loans and advances (for lendings recognised on the balance sheet) and through provisions for off-balance-sheet transactions. Provisions for credit risks are determined using the same measurement methods throughout the group and reflect any collateral present.

Risk provisions for loans and advances include specific risk provisions for loans and advances for which objective evidence of impairment exists. In addition, risk provisions for loans and advances include portfolio risk provisions for loans and advances for which no objective evidence of impairment exists in single observation (incurred but not detected).

When a loan or advance is uncollectible, it is derecognised against an existing related specific risk provision if any, or otherwise is charged off directly in the income statement.

The total amount of risk provisions for loans and advances, in as much as it relates to on-balance-sheet assets, is reported as a line item deduction on the face of the balance sheet in assets, below loans and advances to credit institutions and to customers. The provisions for off-balance-sheet transactions (particularly warranties and guarantees as well as other credit commitments) are included in other provisions.

Trading assets

Trading assets consist of securities, positive market values of derivatives and other financial instruments acquired for trading purposes. Trading assets are measured at fair value, with changes in fair value recognised in profit or loss.

Financial assets – at fair value through profit or loss

Financial assets that, under the group's internal guidelines, are not classified as held for trading but whose performance is evaluated on a fair value basis are reported in the item "financial assets – at fair value through profit or loss" (a treatment referred to as the fair value option) and measured at fair value, with changes in fair value recognised in the income statement. Classification as a financial asset – at fair value through profit or loss is permitted only at initial recognition. Subsequent reclassification is not possible.

Financial assets – available for sale

Financial assets – available for sale are non-derivative financial instruments that are neither held for trading, nor measured at fair value with fair value movements recognised in profit or loss, nor classified as loans and advances or as held to maturity. The item consists of securities and investments in non-consolidated companies. Measurement is at fair value. Changes in fair value of AFS securities arising from measurement are recognised directly in equity until the financial asset is derecognised or impaired. Impairment losses on AFS securities are recognised in the income statement item "result from financial assets – available for sale". If the fair value of the investments in non-consolidated companies cannot be measured reliably, they are recorded at cost.

Financial assets – held to maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturity dates are classified as held to maturity if the group has the intention and ability to hold them until maturity. They are measured at amortised cost. The item “financial assets held to maturity” (HTM) represents bonds and other interest bearing securities held until maturity.

Equity holdings in associates accounted for at equity

This item represents investments in associates.

In accordance with IAS 1.68, investments in companies accounted for by the equity method – known as investments in associates – are reported as a separate line item. Companies are accounted for at equity if the group exercises significant influence over them; this is generally deemed to be the case when the group has an ownership interest of 20% to 50%.

Intangible assets

Intangible assets consist of goodwill resulting from business combinations and other intangibles recognised separately from goodwill (customer relationships, brands, merchant relationships) and software.

As required by IFRS 3 (in conjunction with IAS 36 and IAS 38), an annual impairment test is carried out for all cash-generating units (CGUs) to review the value of existing goodwill. A CGU is the smallest identifiable group of assets that generates permanent cash inflows from continuing use which is largely independent of the cash inflows from other assets or groups of assets. In Erste Group, all business segments distinguished in the segment reporting in the financial statements are defined as CGUs. Separate legal entities within these segments are treated as separate CGUs.

The impairment test is performed for all CGUs to which goodwill is allocated. It is assumed for all other CGUs that any impairment in assets is taken into account on the basis of individual asset valuations. The calculation of the expected cash flows is based on the normalised projected earnings of the CGU. As a rule, the basis for the normalised projected earnings is the reported pre-tax IFRS profit before minority interests in local currency before deduction of consolidation items and before financing costs for the CGU.

To determine the net present values, future cash flows are discounted at a pre-tax discount rate. The planning period consists of a detailed forecast period (typically 3 to 5 years, or longer if warranted by exceptional circumstances) and a rough planning period (represented by a perpetuity calculated based on the latest available detailed planning period). For the perpetuity a growth rate of 2% is applied.

The discount rate used is a long-term risk-free rate before taxes in local currency, to which country- and industry-specific risk premiums are added. These risk premiums do not reflect risks for which future cash flows have already been adjusted. The discount rate used is pre-tax. The discount rates currently used range from 10.22% to 15.56%.

Based on the above parameters, the CGU’s value in use is calculated in euros as of each November. Currency translation into euros is based on the exchange rate (middle rate) then prevailing. Where available, the CGU’s fair value less costs to sell is determined, based on recent transactions, market quotations, appraisals, etc. The higher of value in use and fair value less costs to sell is the recoverable amount.

The subsidiary’s proportionate or full recoverable amount (calculated as outlined above) is compared, respectively, to the sum of proportionate or full equity in the subsidiary, and goodwill. If the proportionate or full recoverable amount is less than the sum of proportionate or full equity and goodwill, the difference is recognised as an impairment loss, in the following order. The impairment loss is allocated first to writing down the CGU’s goodwill. Any remaining impairment loss reduces the carrying amount of the CGU’s other assets, though not to an amount less than their fair value. There is no need to recognise an impairment loss if the proportionate or full recoverable amount of the CGU is higher than or equal to the sum of proportionate or full equity and goodwill. Once recognised, an impairment loss for goodwill cannot be reversed in later periods.

Customer relationships and brands are capitalised if they can be measured with sufficient reliability; they are recognised separately from goodwill. Customer relationships are amortised on a straight-line basis over their expected useful life. Brands are not amortised as they are assumed to have an indefinite useful life. In the event of impairment, impairment losses are recognised.

Software produced internally is capitalised if the future economic benefits associated with the software are likely to flow to the group and the cost can be reliably determined. Such software is amortised over the estimated useful life, which is generally deemed to be 4 to 6 years; the same range is assumed for acquired software.

In the event of impairment, impairment losses are recognised.

Property and equipment

Property and equipment – land and buildings, office furniture and equipment – are measured at cost, less straight-line depreciation (according to estimated useful life) and any impairment losses.

	Useful life in years
Buildings	20-50
Office furniture and equipment	5-20
Computer hardware	4-5

Assets held for sale

Non-current assets and disposal groups that can be sold in their present condition and are likely to be sold are classified as held for sale and reported in this item. Under IFRS 5, non-current assets held for sale must be written down to the lower of carrying amount and fair value less costs to sell.

Other assets

The most important items reported under other assets are accrued interest and commission income, prepaid expenses, investment properties as defined by IAS 40, and positive fair values of derivatives in the banking book.

Investment properties are measured at cost less accumulated straight-line depreciation based on useful life using the cost model permitted by IAS 40. Any impairment losses are recognised as required. If the reasons which led to the impairment cease to apply, the previously recognised impairment loss is reversed to no more than the asset's carrying amount if no impairment loss had been recognised. Investment properties under IAS 40.32B are measured at fair value.

Leases

The lease agreements in force at Erste Group almost exclusively represent finance leases, defined as leases in which all of the risks and rewards associated with the leased asset are transferred to the lessee. Pursuant to IAS 17, the lessor reports a receivable from the lessee amounting to the present value of the contractually agreed payments, taking into account any residual value.

In the case of operating leases – defined as leases where the risks and rewards of ownership remain with the lessor – the leased asset is reported by the lessor in property and equipment and depreciated in accordance with the principles applicable to the assets involved.

Deposits and other liabilities

Deposits and other liabilities are stated at amortised cost, except for those measured at fair value through profit or loss. Deposits and other liabilities that meet the criteria for use of the fair value option are reported at fair value. Zero coupon bonds and similar instruments are likewise reported at amortised cost or at their present value.

Trading liabilities

This item represents derivative financial instruments with a negative fair value, delivery obligations from securities short sales, and other trading portfolio liabilities.

Other provisions

Long-term employee benefit provisions, which are reported in other provisions, are for pensions, severance and jubilee benefits. They relate to defined-benefit plans. The pension obligations for current employees were transferred to external pension funds in previous years. Pension provisions relate only to retired employees. Remaining with Erste Group is a defined-benefit obligation for entitlements of former employees who were already retired as of 31 December 1998 before the pension reform took effect, and for those former employees who retired only in 1999 but remained entitled to a direct pension from Erste Group under individual agreements; and for entitlements to resulting survivor pensions. Severance benefit provisions are created for severance benefit obligations to Austrian employees who entered the group's employment before 1 January 2003.

The severance benefit is a one-time remuneration to which employees are entitled when their employment relationship ends. The entitlement to this severance pay arises after three years of employment. Provisions are also established for "jubilee" benefit obligations to Austrian employees. Jubilee payments (long-service/loyal-service payments) are remuneration tied to the length of employees' service to an employer. The entitlement to jubilee benefits is established by collective agreement, which defines both the conditions and amount of the entitlement.

In accordance with IAS 19 (Employee Benefits), long-term employee provisions are determined using the projected unit credit method. Future obligations are determined based on actuarial expert opinions. The calculation takes into account not only those pensions and vested rights to future pension payments known at the balance sheet date, but also anticipated future rates of increase in salaries and pensions.

As of 31 December 2008, for all domestic subsidiaries, the most important actuarial assumptions used in the computation were adjusted to reflect the situation at year-end 2008. Thus, the actuarial calculation of pension, severance and jubilee benefit obligations is based on a discount rate (long-term capital market interest rate) of 5.5% per annum (previously: 5.0%). The statutory increase in pension benefits is assumed to be 3.0% per year (previously: 2.5%) and severance and jubilee benefits are calculated based on an expected annual increase of 4.3% per year in salaries (previously: 3.8%).

Long-term employee benefit provisions (pension, severance and jubilee benefit obligations) were calculated in accordance with the Pagler & Pagler mortality tables titled "AVÖ 2008 P – Rechnungsgrundlagen für die Pensionsversicherung".

The expected retirement age for each employee was individually calculated on the basis of the changes set out in the Budget Implementation Act of 2003 (Austrian Federal Law Gazette Vol. I No. 71/2003) regarding the increase in the minimum retirement age. The currently applicable legislation on the gradual raising of the retirement age for men and women to 65 was taken into consideration.

For the Central European subsidiaries the discount rates used range from 4.8% (previously: 5.25%) to 7.0% (previously: 7.4%) depending on the country.

The liability recognised from a defined-benefit plan represents the present value of the obligation less the fair value of the plan assets available for the direct settlement of obligations. At Erste Group the plan assets consist of qualifying insurance policies purchased to back severance and jubilee benefit provisions.

Erste Group applies the option allowed by IAS 19 to recognise actuarial gains or losses in respect of employee benefit provisions (defined-benefit plans for post-employment benefits) outside profit or loss. Actuarial gains or losses in pension and severance benefit obligations and of plan assets available to settle these obligations are recognised directly in equity for the period in which they occur (IAS 19.93A).

Actuarial gains or losses in provisions for jubilee benefits – for which the option of recognition outside profit or loss is not allowed – are recognised in profit or loss in the period during which they occur.

Sundry provisions are made for contingent liabilities to outside parties in the amount of the expected expense. Also included in sundry provisions are restructuring provisions and provisions for off-balance sheet risks.

Underwriting provisions are presented as a main item of that name.

Liabilities associated with assets held for sale

This item comprises liabilities associated with assets held for sale, that are, liabilities which form part of a disposal group.

Shares and share-based payments

Erste Group grants shares and share options to employees and managers as compensation for their services, under employee share ownership and management share option plans. These share-based payments are recognised and measured in accordance with IFRS 2 (Share-based Payment). Shares and share options granted under the employee share ownership plan (ESOP) and under the management share option plans (MSOP) of 2002 and 2005 are measured at fair value at grant date. Any expense incurred in granting shares at a discounted price (the difference between issue price and fair value) under the ESOP is recognised immediately in profit or loss within personnel expenses. Any expense resulting from option grants under the MSOP is spread over the vesting period (the period between the grant date and the first permitted exercise date) and recognised in personnel expenses. Fair value is determined by means of generally accepted option pricing models (Black and Scholes, Binomial model).

Tax assets and liabilities

Assets and liabilities in respect of current and deferred taxes are recorded in tax assets and tax liabilities.

Current tax assets and liabilities are recognised at the amounts expected to be paid to or credited by the tax authorities concerned.

In measuring deferred taxes, the balance sheet liability method is used for temporary differences. Under this method the carrying amount of an asset or liability in the balance sheet is compared with its tax base for the respective group entity. Differences between these amounts represent temporary differences for which deferred tax assets or deferred tax liabilities are recognised regardless of when such differences cease to exist. The deferred taxes for the group entities are measured at the local future tax rates that are expected to be applied. A group entity's deferred tax assets are netted with its deferred tax liabilities to the extent that the taxes in question relate to the same tax authority.

Deferred tax assets for unused tax losses are recognised inasmuch as it is likely that these loss carryforwards will be utilised in the future by offsetting against taxable income to realise a tax benefit. Deferred taxes are not discounted.

Sale and repurchase agreements and securities lending/borrowing

Repurchase agreements, also known as "repos" or "sale and repurchase agreements", are contracts under which financial assets are transferred to a transferee (lender) in return for a cash payment while also specifying that the financial assets must later be transferred back to the transferor (borrower) for an amount of money agreed in advance. The financial assets transferred out by Erste Group under repurchase agreements remain on the group's balance sheet and are measured according to the rules applicable to the respective balance sheet item. The cash received under repo arrangements is recorded in deposits by banks or customer deposits as appropriate.

Conversely, under agreements to resell, known as "reverse repos", financial assets are acquired for a consideration while at the same time committing to their future resale. Erste Group's cash outflows under reverse repos are recorded in loans and advances to credit institutions or loans and advances to customers as appropriate.

In securities lending transactions, the lender transfers ownership of securities to the borrower on the condition that the borrower will retransfer, at the end of the agreed loan term, ownership of instruments of the same type, quality and quantity and will pay a fee determined by the duration of the loan. Securities lent to counterparties are accounted for in the same way as repos: They are retained in the group's financial statements and are measured in accordance with IAS 39. Securities lending and borrowing transactions are generally collateralised. Collateral furnished by the securities borrower continues to be recorded in the borrower's financial statements.

Financial guarantees

An obligation arising from a financial guarantee is recognised as soon as Erste Group becomes a contracting party, i.e., when the guarantee offer is accepted. Financial guarantees are initially measured at fair value at the date of recognition. On balance, the fair value of a financial guarantee at contract inception is nil, as the value of the agreed premium in a stand-alone arm's length transaction with an unrelated party generally equals the value of the guarantee obligation. In subsequent measurement, the guarantee contract is reviewed for a possible requirement for a provision.

Significant judgements, assumptions and estimates

The consolidated financial statements contains amounts that have been determined on the basis of judgements and by use of estimates and assumptions. As a consequence of the uncertainty associated with these assumptions and estimates, actual results could in future periods lead to adjustments in the carrying amounts of the related assets or liabilities.

The estimates and assumptions used are based on historical experience and other factors, such as planning as well as expectations and forecasts of future events that are currently deemed to be reasonable.

Estimation uncertainty is associated with impairment tests to review the carrying amounts of intangible assets (particularly goodwill) in determining value in use.

The determination of deferred tax assets requires assumptions in respect of the expected timing and amount of future taxable income and regarding future tax planning.

The actuarial valuation of long-term employee benefit provisions is based on assumptions as to discount rates, future rates of change in salaries, mortality and future pension increases.

Risk provisions for loans and advances are determined on the basis of expected future cash flows.

Where the fair value of on-balance sheet financial assets and financial liabilities cannot be determined by reference to market prices, it is ascertained on the basis of valuation models. Additional information is provided in note 45, fair value of financial instruments.

Judgement is required especially in the treatment of lease relationships entered into by Erste Group as lessor.

Furthermore, judgements are in particular necessary concerning negative valuations from financial instruments of the available for sale portfolio. Erste Group judges a negative valuation as impairment, if there is, due to one or several events that occurred after initial balancing of the financial instrument, an objective indication for a reduction in value and this reduction has an impact on the expected future cash flows of the financial instrument.

c) APPLICATION OF AMENDED AND NEW IFRS/IAS

Effective standards and interpretations

In October 2008 the IASB issued amendments to IAS 39 (Financial Instruments: Recognition and Measurement) and to IFRS 7 (Financial Instruments: Disclosures) which were adopted into European Union law in the same month. These amendments permit reclassification, in rare circumstances, of some financial instruments out of the trading category and out of the available-for-sale portfolio. Erste Group did not make use of this option.

IFRIC Interpretation 11 (Group and Treasury Share Transactions) was issued in November 2006 and adopted into European Union law with effect from 1 June 2007. Under this interpretation, arrangements whereby employees are granted rights to an entity's equity instruments must be accounted for as equity-settled share-based payment transactions even if the entity buys the instruments from another party or if the shareholders of the entity provide the equity instruments needed. This interpretation must be applied for financial years beginning on or after 1 March 2007. Its application did not have an impact on Erste Group.

IFRIC Interpretation 14 (The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction) was published in July 2007 and adopted into European Union law in December 2008. IFRIC 14 provides guidance for determining the maximum amount of surplus in a defined-benefit plan that may be recognised as an asset under IAS 19 (Employee Benefits). IFRIC 14 must be applied for financial years beginning on or after 1 January 2008. Its application did not have an impact on the results and financial position of Erste Group.

Standards and interpretations applied before their effective date

In November 2006 the IASB issued IFRS 8 (Operating Segments). In November 2007, IFRS 8 was adopted into European Union law. IFRS 8 replaces IAS 14 and prescribes segment reporting based on operating segments. Under IFRS 8, operating segments are defined as those components of an entity for which separate financial information is available that is regularly reviewed by the entity's chief operating decision maker (a definition based on the so-called "management approach"). Application of IFRS 8 is mandatory from 1 January 2009. Erste Group has applied IFRS 8 early.

In March 2007 the IASB issued the revised IAS 23 (Borrowing Costs). It was adopted into European Union law in December 2008. The standard requires the capitalisation of borrowing costs that can be attributed to qualifying assets. A qualifying asset is an asset that requires a substantial period of time to be readied for its intended use or sale. Application of the amended IAS 23 is mandatory for financial years beginning on or after 1 January 2009. Erste Group has applied the revised IAS 23 early. As the standard requires prospective application, it did not result in retrospective changes.

Standards and interpretations not yet applied

IFRIC Interpretation 13 (Customer Loyalty Programmes) was published in June 2007 and adopted into European Union law in December 2008. Under this interpretation, loyalty award credits granted to customers are to be accounted for as a separately identifiable component of the sales transactions in which they were granted. Part of the fair value of the consideration received is allocated to the award credits, on an accrual basis. This portion is subsequently recognised as income in the reporting period during which the award credits are redeemed. IFRIC 13 is effective for financial years beginning on or after 1 July 2008. Its application is not expected to have a material impact on the results and financial position of Erste Group.

In January 2008 the IASB published an amendment to IFRS 2 (Share-based Payment). The revision was adopted into European Union law in December 2008. The changes to IFRS 2 define vesting conditions in greater detail and provide explicit rules for the accounting treatment of effectively cancelled share-based payment arrangements. Application of the amended IFRS 2 is mandatory for financial years beginning on or after 1 January 2009. Its application is not expected to have a material impact on the results and financial position of Erste Group.

A revised IAS 1 (Presentation of Financial Statements) was issued by the IASB in September 2007 and adopted into European Union law in December 2008. The amendment pertains to the presentation of changes in equity and introduces the presentation of comprehensive income. Application of the amended IAS 1 is mandatory for financial years beginning on or after 1 January 2009. Its application will not have an impact on the results and financial position of Erste Group.

In January 2008 the IASB issued an amended IFRS 3 (Business Combinations) and an amended IAS 27 (Consolidated and Separate Financial Statements). However, these revisions still require endorsement by the EU for adoption into European law. The most important changes in the amended IFRS 3 are:

_ It creates an option, available on a transaction-by-transaction basis, to measure non-controlling interests either at fair value or at the proportionate share of the net assets acquired.

_ A contingent consideration for the acquisition must be measured at fair value at the acquisition date.

_ The acquirer's transaction costs must be recognised as period expenses.

The changes to IAS 27 relate to the presentation of minority interests in the financial statements, the accounting treatment when control of a subsidiary is lost, and the attribution of profit or loss to controlling and non-controlling interests in a subsidiary. The revisions to IFRS 3 and IAS 27 are effective for financial years beginning on or after 1 July 2009. Erste Group is currently assessing the possible effects of the application of the revised IFRS 3 and IAS 27 on the group.

In May 2008, IASB published a standard with the aim of changing different IFRS standards to eliminate inconsistencies and clarify formulations. This standard is not expected to have a material impact on the results and financial position of Erste Group.

Furthermore, IFRIC-12 (Service Concession Arrangements) is not expected to have a material impact on the results and financial position of Erste Group.

D. NOTES TO THE CONSOLIDATED INCOME STATEMENT AND THE CONSOLIDATED BALANCE SHEET OF ERSTE GROUP

1) Net interest income

in EUR million	2008	2007
Interest income		
Lending and money market transactions with credit institutions	1,886.7	1,342.8
Lending and money market transactions with customers	8,120.4	6,334.1
Bonds and other interest-bearing securities	1,423.9	1,521.7
Other interest and similar income	26.9	54.4
Current income		
Equity-related securities	130.2	120.9
Investments		
Non-consolidated subsidiaries	13.4	9.5
Other investments	21.6	17.6
Investment properties	82.2	72.2
Interest and similar income	**11,705.3**	**9,473.2**
Interest income from financial assets - at fair value through profit or loss	239.2	192.2
Total interest and similar income	**11,944.5**	**9,665.4**
Interest expenses		
Deposits by banks	(2,105.9)	(1,829.0)
Customer deposits	(3,259.1)	(2,404.1)
Debt securities in issue	(1,292.5)	(1,135.2)
Subordinated liabilities	(389.0)	(351.3)
Other	(6.4)	(23.4)
Interest and similar expenses	**(7,052.9)**	**(5,743.0)**
Interest expenses from financial assets - at fair value through profit or loss	0.0	(0.4)
Total interest and similar expenses	**(7,052.9)**	**(5,743.4)**
Income from associates accounted for at equity	**21.5**	**23.8**
Total	**4,913.1**	**3,945.8**

2) Risk provisions for loans and advances

in EUR million	2008	2007
Allocation to risk provisions for loans and advances	(1,720.3)	(1,308.6)
Release of risk provisions for loans and advances	668.8	849.4
Direct write-offs of loans and advances	(80.7)	(89.4)
Recoveries on written-off loans and advances	60.8	93.9
Total	**(1,071.4)**	**(454.7)**

3) Net fee and commission income

in EUR million	2008	2007
Lending business	375.5	346.3
Payment transfers	855.2	742.0
Card business	196.7	152.3
Securities transactions	451.3	517.8
Investment fund transactions	209.0	239.8
Custodial fees	31.1	53.2
Brokerage	211.2	224.8
Insurance brokerage	89.2	59.7
Building society brokerage	42.5	38.2
Foreign exchange transactions	37.2	37.2
Investment banking business	16.7	27.8
Other	103.5	88.9
Total	**1,971.1**	**1,857.9**

4) Net trading result

in EUR million	2008	2007
Securities and derivatives trading	(141.1)	102.1
Foreign exchange transactions	255.8	249.0
Total	**114.7**	**351.1**

5) General administrative expenses

in EUR million	2008	2007
Personnel expenses	(2,313.8)	(2,189.3)
Other administrative expenses	(1,313.1)	(1,070.5)
Depreciation and amortisation	(375.0)	(382.3)
Total	**(4,001.9)**	**(3,642.1)**

Personnel expenses

in EUR million	2008	2007
Wages and salaries	(1,710.0)	(1,618.9)
Compulsory social security contributions	(461.3)	(440.1)
Long-term employee provisions	(95.0)	(83.0)
Other personnel expenses	(47.5)	(47.3)
Total	**(2,313.8)**	**(2,189.3)**

Personnel expenses include expenses of EUR 46.3 million (2007: EUR 41.6 million) for defined-contribution plans.

Average number of employees during the financial year (weighted according to the level of employment)

	2008	2007
Employed by Erste Group	53,847	52,352
Domestic	16,369	15,128
Haftungsverbund savings banks	7,725	6,906
Abroad	37,478	37,224
Banca Comercială Română Group	11,564	13,084
Česká spořitelna Group	10,911	10,897
Slovenská sporiteľňa Group	4,916	4,812
Erste Bank Hungary Group	3,194	3,064
Erste Bank Croatia Group	1,975	1,827
Erste Bank Serbia	942	906
Erste Bank Ukraine	1,849	784
Other subsidiaries and foreign branch offices	2,127	1,850

Other administrative expenses

in EUR million	2008	2007
IT expenses	(311.0)	(244.4)
Expenses for office space	(261.4)	(233.5)
Office operating expenses	(203.1)	(164.7)
Advertising/marketing	(205.2)	(179.6)
Legal and consulting costs	(178.5)	(123.5)
Sundry administrative expenses	(153.9)	(124.8)
Total	**(1,313.1)**	**(1,070.5)**

Depreciation and amortisation

in EUR million	2008	2007
Software and other intangible assets	(151.2)	(163.5)
Real estate used by the Group	(75.2)	(71.4)
Office furniture and equipment and sundry property and equipment	(148.6)	(147.4)
Total	**(375.0)**	**(382.3)**

Amortisation of customer relationships is not included in the item depreciation and amortisation, but in other operating result.

6) Other operating result

in EUR million	2008	2007
Other operating income	242.5	198.8
Other operating expenses	(1,021.3)	(368.1)
Total	**(778.8)**	**(169.3)**
Result from real estates/properties	4.7	25.1
Allocation/release of other provisions/risks	(25.5)	8.3
Expenses for deposit insurance contributions	(45.3)	(37.6)
Amortisation of intangible assets (customer relationships)	(76.9)	(81.8)
Other taxes	(25.5)	(26.0)
Impairment of goodwill	(579.1)*)	0.0
Result from other operating expenses/income	(31.2)	(57.3)
Total	**(778.8)**	**(169.3)**

*) Thereof apply to Banca Comercială Română, Erste Bank Serbia and Erste Bank Ukraine in total EUR 566,8 million.

7) Result from financial assets – at fair value through profit or loss

in EUR million	2008	2007
Gain/(loss) from measurement/sale of financial assets at fair value through p&l	(295.6)	(47.8)

8) Result from financial assets – available for sale

in EUR million	2008	2007
Gain/(loss) from sale of financial assets available for sale	66.1	54.5
Impairment / reversal of impairment of financial assets available for sale	(279.9)	(3.5)
Total	**(213.8)**	**51.0**

During the reporting period the amount removed from equity to result from financial assets – available for sale was EUR (52,7) million (2007: EUR 36,0 million).

9) Result from financial assets – held to maturity

in EUR million	2008	2007
Income		
Income from sale of financial assets held to maturity	0.0	0.7
Reversal of impairment loss of financial assets held to maturity	0.0	0.2
Expenses		
Loss from sale of financial assets held to maturity	(0.7)	(0.2)
Impairment of financial assets held to maturity	(60.5)	0.0
Total	**(61.2)**	**0.7**

10) Taxes on income

Taxes on income are made up of current taxes on income calculated in each of the group companies based on the results reported for tax purposes, corrections to taxes on income for previous years, and the change in deferred taxes.

in EUR million	2008	2007
Current tax expense	(342.3)	(335.0)
Deferred tax expense / income	165.0	(36.0)
Total	**(177.3)**	**(371.0)**

The following table reconciles the product of pre-tax profit multiplied by the Austrian tax rate to the income taxes reported in the income statement.

in EUR million	2008	2007
Pre-tax profit from continuing operations	576.2	1,892.6
Income tax expense for the financial year at the domestic statutory tax rate (25%)	(144.1)	(473.2)
Impact of different foreign tax rates	53.6	24.9
Impact of tax-exempt earnings of investments and other tax-exempt income	139.7	132.2
Tax increases due to non-deductible expenses	(258.3)	(55.0)
Tax income not attributable to the reporting period	31.8	0.1
Total	**(177.3)**	**(371.0)**

11) Profit from discontinued operations net of tax

in EUR million	2008	2007
Profit from disposal of discontinuing operations	749.6	0.0
Taxes from disposal of discontinued operations	(118.7)	0.0
Profit from discontinued operations	8.0	35.0
Income tax on discontinued operations	0.8	(6.6)
Total	**639.7**	**28.4**

12) Appropriation of profit

It will be proposed to the annual general meeting of Erste Group Bank AG to pay shareholders a dividend of EUR 0.65 per share (prior year: EUR 0.75 per share), or EUR 206,058,295.95 in total. The distributable profit according to Austrian accounting regulations of Erste Group Bank AG amounts to EUR 206.1 million (2007: EUR 237.4 million).

13) Cash and balances with central banks

in EUR million	2008	2007
Cash in hand	2,236	1,894
Balances with central banks	5,320	5,721
Total	**7,556**	**7,615**

14) Loans and advances to credit institutions

in EUR million	2008	2007
Loans and advances to domestic credit institutions	1,471	1,556
Loans and advances to foreign credit institutions	12,873	13,381
Total	**14,344**	**14,937**

Loans and advances to credit institutions include a total of EUR 100.9 million of items to which the fair value option was applied.

15) Loans and advances to customers

in EUR million	2008	2007
Loans and advances to domestic customers		
Public sector	2,947	2,934
Commercial customers	35,821	31,357
Private customers	22,805	21,463
Unlisted securities	0	20
Other	136	114
Total loans and advances to domestic customers	**61,709**	**55,888**
Loans and advances to foreign customers		
Public sector	2,026	1,978
Commercial customers	34,179	32,932
Private customers	26,948	21,878
Unlisted securities	1,172	1,084
Other	151	196
Total loans and advances to foreign customers	**64,476**	**58,068**
Total	**126,185**	**113,956**

16) Risk provisions for loans and advances

Risk provisions 2008

in EUR million	2007	Acquisition of subsidiaries	Currency translation	Allocations	Use	Releases	Interest income from non-performing loans	Reclassification[2]	2008
Specific provisions	2,431	34	(18)	1,377	(443)	(521)	(85)	227	3,002
Portfolio provisions	865	11	(8)	241	0	(76)	0	(252)	781
Risk provisions for loans and advances[1]	**3,296**	**45**	**(26)**	**1,618**	**(443)**	**(597)**	**(85)**	**(25)**	**3,783**
Other risk provisions[3]	143	0	1	9	(26)	(24)	0	4	107
Provision for guarantees	66	0	(1)	92	(3)	(48)	0	21	127
Total	**3,505**	**45**	**(26)**	**1,719**	**(472)**	**(669)**	**(85)**	**0**	**4,017**

1) Risk provisions for loans and advances are recognised in the balance sheet as a deduction from assets.
2) In the course of implementation of Erste Group Risk management standards, portfolio provisions were reclassified to specific provisions.
3) Other risk provisions mainly include provisions for legal proceedings, realisation losses, and liabilities for statements made in offering circulars.

Risk provisions 2007

in EUR million	2006	Acquisition of subsidiaries	Currency translation	Allocations	Use	Releases	Interest income from non-performing loans	Reclassification[2]	2007
Specific provisions	2,476	48	(6)	1,030	(375)	(612)	(62)	(68)	2,431
Portfolio provisions	657	3	(33)	228	0	(204)	0	214	865
Risk provisions for loans and advances[1]	**3,133**	**51**	**(39)**	**1,258**	**(375)**	**(816)**	**(62)**	**146**	**3,296**
Other risk provisions[3]	105	0	1	22	(3)	(10)	0	28	143
Provision for guarantees	70	0	0	30	(1)	(25)	0	(8)	66
Total	**3,308**	**51**	**(38)**	**1,310**	**(379)**	**(851)**	**(62)**	**166**	**3,505**

1) Risk provisions for loans and advances are recognised in the balance sheet as a deduction from assets.
2) Reclassifications include reintegrations of loans written off.
3) Other risk provisions mainly include provisions for legal proceedings, realisation losses, and liabilities for statements made in offering circulars.

17) Trading assets

in EUR million	2008	2007
Bonds and other interest-bearing securities		
Listed	4,327	3,900
Unlisted	148	121
Equity-related securities		
Listed	112	507
Unlisted	415	299
Positive fair value of derivative financial instruments		
Currency-related derivatives	485	433
Interest-rate-related derivatives	1,987	1,286
Other derivatives	60	91
Total	**7,534**	**6,637**

Among equity-related securities especially investment-funds are disclosed.

18) Financial assets – at fair value through profit or loss

in EUR million	2008	2007
Bonds and other interest-bearing securities		
Listed	3,164	3,534
Unlisted	158	117
Equity-related securities	736	883
Total	**4,058**	**4,534**

Among equity-related securities especially investment-funds are disclosed.

19) Financial assets – available for sale

in EUR million	2008	2007
Bonds and other interest-bearing securities		
Listed	9,248	9,190
Unlisted	3,597	3,665
Equity-related securities		
Listed	418	529
Unlisted	2,301	2,460
Equity holdings	469	356
Total	**16,033**	**16,200**

Among equity-related securities especially investment-funds are disclosed.

20) Financial assets – held to maturity

in EUR million	2008	2007
Listed	12,859	15,209
Unlisted	1,286	1,634
Total	**14,145**	**16,843**

21) Investments of insurance companies

in EUR million	2008	2007
Held to maturity portfolio	-	1,532
Fair value portfolio (fair value option)	-	2,615
Available for sale portfolio	-	3,683
Other	-	224
Total	**-**	**8,054**

22) Equity holdings in associates accounted for at equity

in EUR million	2008	2007
Credit institutions	128	112
Non-credit institutions	132	173
Total	**260**	**285**

The table below shows the aggregated financial information of companies accounted for at equity:

in EUR million	2008	2007
Total assets	6,018	5,421
Total liabilities	4,231	3,428
Income	884	583
Profit / (loss)	59	83

At 31 December 2008, the fair value of listed companies accounted for at equity was EUR 12.1 million (2007: EUR 99.6 million). The decrease compared to the prior year resulted mainly from the disposal of the insurance business.

23) Movements in fixed assets schedule

Movements in fixed assets schedule 2008

in EUR million	At cost 2007	Acquisition of subsidiaries (+)	Disposal of subsidiaries (–)	Currency translation (+/–)	Additions (+)	Disposals (–)	At cost 2008
Intangible assets	**7,519**	**61**	**(213)**	**(410)**	**231**	**(80)**	**7,108**
Goodwill	4,818	43	(150)	(293)	0	0	4,418
Customer relationships	838	0	(55)	(81)	5	0	707
Brand	360	0	(2)	(37)	0	0	321
Other (primarily software)	1,503	18	(6)	1	226	(80)	1,662
Property and equipment	**4,443**	**44**	**(5)**	**(62)**	**554**	**(350)**	**4,624**
Land and buildings (used by the group)	2,611	30	(2)	(49)	255	(123)	2,722
Office furniture and equipment, hardware and sundry property and equipment	1,832	14	(3)	(13)	299	(227)	1,902
Investment properties and movable other property[1]	**1,476**	**47**	**0**	**1**	**145**	**(118)**	**1,551**
Investment properties	1,420	47	0	1	132	(90)	1,510
Movable other property	56	0	0	0	13	(28)	41
Total	**13,438**	**152**	**(218)**	**(471)**	**930**	**(548)**	**13,283**

1) Investment properties and movable other property are reported in other assets.

The amount recorded for investment properties includes carrying amounts of leased assets of EUR 94 million (31 December 2007: EUR 251 million) of assets under operating leases.

In the reporting period, borrowing costs of EUR 24.8 million were capitalised. The related interest rates ranged from 4.4% to 8.2%.

in EUR million	Accumulated depreciation 2008	Currency translation (+/–)	Amortisation and depreciation (–)[2]	Impairment (+/–)[3]	Carrying amounts 2008
Intangible assets	**(2,303)**	**19**	**(228)**	**(576)**	**4,805**
Goodwill	(1,007)	0	0	(579)[4]	3,411
Customer relationships	(146)	16	(77)	0	561
Brand	0	0	0	0	321
Other (primarily software)	(1,150)	3	(151)	3	512
Property and equipment	**(2,238)**	**17**	**(224)**	**8**	**2,386**
Land and buildings (used by the group)	(835)	6	(75)	8	1,887
Office furniture and equipment, hardware and sundry property and equipment	(1,403)	11	(149)	0	499
Investment properties and movable other property[1]	**(272)**	**4**	**(31)**	**(33)**	**1,279**
Investment properties	(257)	4	(27)	(33)	1,253
Movable other property	(15)	0	(4)	0	26
Total	**(4,813)**	**40**	**(483)**	**(601)**	**8,470**

1) Investment properties and movable other property are reported in other assets.
2) Including amortisation and depreciation reported by non-bank companies, which is reflected in other operating result.
3) Impairment losses are included in other operating result.
4) Thereof apply to Banca Comercială Română, Erste Bank Serbia and Erste Bank Ukraine in total EUR 566,8 million.

Goodwill at 31 December 2008 comprised predominantly goodwill of EUR 1,917.5 million (2007: EUR 2,729.9 million) from Banca Comercială Română S.A, goodwill of EUR 543.1 million (2007: EUR 543.1 million) from Česká spořitelna a.s., goodwill of EUR 312.7 million (2007: EUR 312.7 million) from Erste Bank Hungary Nyrt. and goodwill of EUR 226.3 million (2007: EUR 221.5 million) from Slovenská sporitel'ňa a.s.

At 31 December 2008, customer relationships included the customer relationships of Banca Comercială Română at EUR 515.2 million (2007: EUR 693.1 million), the customer relationships and distribution network of Erste Card Club d.d. Croatia at EUR 38.3 million (2007: EUR 45.2 million), the customer relationships of ABS Banka d.d., at EUR 3.2 million (2007: EUR 5.4 million) as well as the customer relationships of Investbanka a.d. Skopje at EUR 4.5 million.

The item brand at 31 December 2008 consisted of the brand of Banca Comercială Română, at EUR 321.0 million (2007: EUR 359.7 million).

In view of the deterioration in the global macroeconomic environment and its expected future effects on Central and Eastern Europe, the business plans for 2009 to 2011 were adjusted accordingly. This resulted in impairments on the goodwill of the entities in Romania (EUR 480.0 million), in Serbia (EUR 65.5 million) and in Ukraine (EUR 21.3 million).

Movements in fixed assets schedule 2007

in EUR million	At cost restated 2006	Acquisition of sub-sidiaries (+)	Currency translation (+/–)	Additions (+)	Disposals (–)	At cost 2007
Intangible assets	**7,426**	**206**	**(247)**	**255**	**(121)**	**7,519**
Goodwill	4,852	149	(183)	0	0	4,818
Customer relationships	833	56	(51)	0	0	838
Brand	384	0	(24)	0	0	360
Other (primarily software)	1,357	1	11	255	(121)	1,503
Property and equipment	**4,187**	**102**	**(2)**	**386**	**(230)**	**4,443**
Land and buildings (used by the group)	2,439	93	(5)	169	(85)	2,611
Office furniture and equipment, hardware and sundry property and equipment	1,748	9	3	217	(145)	1,832
Investment properties and movable other property[1)]	**1,242**	**22**	**10**	**292**	**(90)**	**1,476**
Investment properties	1,191	22	10	280	(83)	1,420
Movable other property	51	0	0	12	(7)	56
Total	**12,855**	**330**	**(239)**	**933**	**(441)**	**13,438**

1) Investment properties and movable other property are reported in other assets.

in EUR million	Accumulated depreciation 2007	Currency translation (+/–)	Amortisation and depreciation (–)[2)]	Impairment (+/–)[3)]	Carrying amounts 2007
Intangible assets	**(1,556)**	**(2)**	**(246)**	**(16)**	**5,963**
Goodwill	(428)	0	0	(5)	4,390
Customer relationships	(94)	7	(82)	0	744
Brand	0	0	0	0	360
Other (primarily software)	(1,034)	(9)	(164)	(11)	469
Property and equipment	**(2,154)**	**(8)**	**(218)**	**(7)**	**2,289**
Land and buildings (used by the group)	(788)	(4)	(71)	(7)	1,823
Office furniture and equipment, hardware and sundry property and equipment	(1,366)	(4)	(147)	0	466
Investment properties and movable other property[1)]	**(245)**	**(8)**	**(28)**	**6**	**1,231**
Investment properties	(211)	(9)	(24)	6	1,209
Movable other property	(34)	1	(4)	0	22
Total	**(3,955)**	**(18)**	**(492)**	**(17)**	**9,483**

1) Investment properties and movable other property are reported in other assets.
2) Including amortisation and depreciation reported by non-bank companies, which is reflected in other operating result.
3) Impairment losses are included in other operating result.

24) Tax assets and liabilities

in EUR million	Tax assets 2008	Tax assets 2007	Tax liabilities 2008	Tax liabilities 2007
Deferred tax assets				
Temporary differences relate to the following items: Loans and advances to credit institutions and customers	32	34	(200)	(136)
Risk provisions for loans and advances	40	17	(28)	(11)
Financial assets - at fair value through profit or loss	4	4	1	(2)
Financial assets - available for sale	528	179	38	39
Property and equipment	7	6	105	80
Deposits by banks and customer deposits	(26)	(27)	(7)	(17)
Long-term employee provisions	139	115	3	26
Sundry provisions	20	7	14	10
Tax loss carry forward	56	47	53	27
Customer relationships and brand	0	0	(141)	(178)
Other	1	33	(117)	(100)
Total deferred taxes	**801**	**415**	**(279)**	**(262)**
Current taxes	**58**	**31**	**(110)**	**(67)**
Total taxes	**859**	**446**	**(389)**	**(329)**

In compliance with IAS 12.39, no deferred tax liabilities were recognised for temporary differences relating to investments in subsidiaries in the amount of EUR 358 million (31 December 2007: EUR 331 million), as they will not reverse in the foreseeable future.

No deferred taxes were recognised for tax loss carryforwards of EUR 800 million (31 December 2007: EUR 541 million), as they will not be realised in the foreseeable future.

25) Assets held for sale

in EUR million	2008	2007
Assets held for sale	47	-
Disposal group	479	-
Total	**526**	**-**

Specified assets classified as disposal group were as of 31 December 2008 as follows:

in EUR million	2008
Loans and advances to credit institutions	158
Loans and advances to customers	268
Other assets	53
Total	**479**

The income and expenses recognised directly in equity for these assets at 31 December 2008 amounted to EUR (1.1) million.

26) Other assets

in EUR million	2008	2007
Accrued interest and commissions	1,837	1,756
Deferred income	613	331
Investment properties	1,253	1,209
Positive fair values of derivatives (banking book)	460	144
Sundry assets	2,370	2,617
Total	**6,533**	**6,057**

Sundry assets consist mainly of clearing items from the settlement of securities and payment transactions.

27) Deposits by banks

in EUR million	2008	2007
Deposits by banks - domestic credit institutions	16,103	10,497
Deposits by banks - foreign credit institutions	18,569	24,668
Total	**34,672**	**35,165**

Deposits by banks included a total of EUR 0 million (31 December 2007: EUR 105.7 million) of liabilities to which the fair value option was applied. The total amount repayable on these liabilities at 31 December 2008 was EUR 0 million (31 December 2007: EUR 109.6 million). The difference between the fair value of these liabilities and the amount repayable at 31 December 2008 totalled EUR 0 million (31 December 2007: EUR (3.9) million).

28) Customer deposits

in EUR million	Domestic 2008	Domestic 2007	Abroad 2008	Abroad 2007	Total 2008	Total 2007
Savings deposits	38,706	35,035	10,826	10,168	49,532	45,203
Sundry						
Public sector	938	695	4,024	4,071	4,962	4,766
Commercial customers	11,183	9,777	11,425	14,227	22,608	24,004
Private customers	4,411	4,145	27,205	21,332	31,616	25,477
Sundry	276	263	311	403	587	666
Total other	**16,808**	**14,880**	**42,965**	**40,033**	**59,773**	**54,913**
Total	**55,514**	**49,915**	**53,791**	**50,201**	**109,305**	**100,116**

Customer deposits included a total of EUR 128 million (31 December 2007: EUR 0 million) of liabilities to which the fair value option was applied. The total amount repayable on these liabilities at 31 December 2008 was EUR 129 million (31 December 2007: EUR 0 million). The difference between the fair value of these liabilities and the amount repayable at 31 December 2008 totalled EUR (1) million (31 December 2007: EUR 0 million).

29) Debt securities in issue

in EUR million	2008	2007
Bonds	17,680	17,457
Certificates of deposit	6,072	8,784
Other certificates of deposits/ name certificates	2,859	1,538
Mortgage and municipal bonds	5,730	3,289
Other	91	212
Repurchased own issues	(1,949)	(202)
Total	**30,483**	**31,078**

In August 2008 the size of the debt issuance programme (DIP) launched in 1998 by Erste Group Bank AG increased to EUR 30 billion. The DIP is a programme for issuing debt instruments in various currencies, with a wide array of available structures and maturities. In the year under review, 207 new issues with total volume of about EUR 6.5 billion were floated under the DIP.

The Euro commercial paper and certificates of deposit programme of August 2008 has an overall size of EUR 10 billion. In all, 276 issues were placed in 2008, with total proceeds of approximately EUR 10.8 billion; issues totalling approximately EUR 11.4 billion were redeemed over the same period.

Debt securities in issue included EUR 65 million (31 December 2007: EUR 45 million) of liabilities to which the fair value option was applied. The total amount repayable on these liabilities at 31 December 2008 was EUR 68 million (31 December 2007: EUR 49 million). The difference between the fair value of these liabilities and the amount repayable at 31 December 2008 was EUR (3) million (2007: EUR (4) million).

30) Trading liabilities

in EUR million	2008	2007
Currency-related derivatives	322	211
Interest-rate-related derivatives	1,923	1,158
Other trading liabilities	274	387
Total	**2,519**	**1,756**

31) Underwriting provisions

in EUR million	2008	2007
Provision for unearned premium	-	81
Actuarial reserve	-	8,379
Provision for non-transacted insurance claims	-	94
Provision for profit-sharing	-	80
Other underwriting provisions	-	4
Total	**-**	**8,638**

32) Other provisions

in EUR million	2008	2007
Long-term employee provisions	1,249	1,448
Sundry provisions	371	344
Total	**1,620**	**1,792**

a) Long-term employee provisions

in EUR million	Pensions	Serverance payments	Jubilee payments	Total
Present value of long-term employees´ benefit obligations 31 Dec 2004 restated	**802**	**317**	**56**	**1,175**
Present value of long-term employees´ benefit obligations 31 Dec 2005 restated	**793**	**330**	**57**	**1,180**
Present value of long-term employees´ benefit obligations 31 Dec 2006	**981**	**410**	**62**	**1,453**
Increase from acquisition of subsidiaries	7	4	1	12
Service cost	0	17	4	21
Interest cost	43	19	3	65
Payments	(71)	(46)	(5)	(122)
Exchange rate difference	0	(3)	0	(3)
Actuarial gains/(losses) recognised directly in equity	31	(6)	0	25
Actuarial gains/(losses) recognised in income	0	0	(3)	(3)
Present value of long-term employees´ benefit obligations 31 Dec 2007	**991**	**395**	**62**	**1,448**
Increase from acquisition of subsidiaries	14	8	1	23
Decrease from disposal of subsidiaries	(10)	(4)	0	(14)
Service cost	0	16	4	20
Interest cost	47	20	3	70
Payments	(73)	(32)	(5)	(110)
Exchange rate difference	0	(2)	0	(2)
Actuarial gains/(losses) recognised directly in equity	(19)	6	0	(13)
Actuarial gains/(losses) recognised in income	0	0	5	5
Present value of long-term employees´ benefit obligations 31 Dec 2008	**950**	**407**	**70**	**1,427**
Obligations covered by plan assets	0	213	8	221
Obligations covered by provisions	0	194	62	256
Less fair value of plan assets	**0**	**171**	**7**	**178**
Provisions	**950**	**236**	**63**	**1,249**

With the sale of s Versicherung, the assets that had been transferred to s Versicherung to cover obligations for severance and jubilee benefits became plan assets according to IAS 19. For the employees involved, insurance policies were issued under a group insurance contract. These policies, so-called “Direktversicherungen”, represent occupational insurance covering employees for the event that they cease to be employed by Erste Group while entitled to severance or jubilee benefits. The premium is paid by Erste Group; the insured is the entitled employee. As qualifying insurance policies, these occupational insurance policies represent plan assets.

The movement in plan assets during the reporting period was as follows:

in EUR million	Serverance payments	Jubilee payments	Total
Fair value of plan assets as of 31 Dec 2007	**0**	**0**	**0**
Addition as of 1 July 2008	174	7	181
Expected return on plan assets	4	0	4
Contributions by the employer	8	0	8
Benefits paid	(8)	0	(8)
Actuarial gains and losses	(7)	0	(7)
Settlements	0	0	0
Fair value of plan assets as of 31 Dec 2008	**171**	**7**	**178**

In 2009 the expected premiums for the severance and jubilee benefit obligations will amount to EUR 13.5 million.

The following table presents the portfolio structure of the plan assets at 31 December 2008:

in EUR million	2008
Debt instruments	106
Fixed-term deposits / cash	72
Total	**178**

In 2008, actuarial loss on plan assets amounted to EUR (3.1) million.

b) Sundry provisions

Sundry provisions 2008

in EUR million	2007	Acquisition/ disposal of subsidiaries	Currency translation	Alloca-tions	Use	Releases	Reclassi-fication	2008
Provision for off-balance-sheet and other risks	209	0	0	101	(29)	(72)	25	234
Sundry other provisions[1]	135	(7)	0	43	(16)	(18)	0	137
Total	**344**	**(7)**	**0**	**144**	**(45)**	**(90)**	**25**	**371**

1) Sundry other provisions consist mainly of provisions for litigation and restructuring. It is considered highly likely that use will be made of sundry other provisions next year.

Sundry provisions 2007

in EUR million	2006	Acquisition of subsidiaries	Currency translation	Alloca-tions	Use	Releases	Reclassi-fication	2007
Provision for off-balance-sheet and other risks	175	0	1	52	(4)	(35)	20	209
Sundry other provisions[1]	152	1	1	24	(9)	(29)	(5)	135
Total	**327**	**1**	**2**	**76**	**(13)**	**(64)**	**15**	**344**

1) Sundry other provisions consist mainly of provisions for litigation and restructuring. It is considered highly likely that use will be made of sundry other provisions next year.

33) Liabilities associated with assets held for sale

The liabilities classified as belonging to a disposal group had the following composition at 31 December 2008:

in EUR million	2008
Deposits by banks	269
Customer deposits	59
Other liabilities	15
Total	**343**

34) Other liabilities

in EUR million	2008	2007
Deferred income	509	356
Accrued interest and commissions	1,626	1,039
Negative fair values of derivatives (banking book)	382	742
Sundry liabilities	2,451	2,516
Total	**4,968**	**4,653**

Sundry liabilities consist mainly of clearing items from the settlement of securities and payment transactions.

35) Subordinated liabilities

in EUR million	2008	2007
Subordinated issues and deposits	2,779	2,377
Supplementary capital	2,028	1,982
Hybrid issues	1,256	1,247
Repurchased own issues	(16)	(17)
Total	**6,047**	**5,589**

36) Total equity

in EUR million	2008	2007
Subscribed capital	634	632
Additional paid-in capital	4,583	4,557
Retained earnings, other reserves and net profit before minority interests	2,862	3,263
Shareholders' equity	**8,079**	**8,452**
Minority interests	3,016	2,951
Total[1]	**11,095**	**11,403**

1) Details on equity are provided in section III, Consolidated Statement of Changes in Total Equity.

At 31 December 2008, subscribed capital (also known as called up and fully paid share capital – the capital paid in by shareholders) consisted of 317,012,763 voting bearer shares (ordinary shares). Additional paid-in capital (or share premium) represents the amount by which the issue price of the shares exceeded their accounting par value. Retained earnings represent accumulated net profits brought forward, as well as income and expenses recognised directly in equity.

Under the **MSOP 2002,** in the April 2008 exercise window, 19,179 options were exercised, resulting in the subscription for 76,716 bearer shares at an issue price of EUR 16.50. This generated issue proceeds of EUR 1,265,814.00, of which EUR 153,432.00 was allocated to subscribed capital and EUR 1,112,382.00 to additional paid-in capital. The second tranche accounted for 12,922 of the exercised options, including 8,600 exercised by managers and 4,322 by other staff. In the third tranche, 6,257 options were exercised (1,000 of them by board members, 2,580 by managers and 2,677 by other employees). For all these options, the difference between the exercise price (EUR 16.50) and the closing price of the Erste Group Bank AG shares at the value date (EUR 46.60) was EUR 30.10.

The exercise price of the individual options (the average of all closing prices in March 2002, rounded down to the nearest half euro) was EUR 66.00; taking account of the four-for-one stock split carried out since then, this gives a value of EUR 16.50 per share. The estimated value of the individual options at the balance sheet date of 31 December 2008 was EUR 2.52 for options vested in 2004.

Under the **MSOP 2005, in the first exercise window** (May 2008), 2,098 options were exercised. Thus 2,098 bearer shares were issued, at a price of EUR 43.00. This generated issue proceeds of EUR 90,214.00, of which EUR 4,196.00 was allocated to subscribed capital and EUR 86,018.00 to additional paid-in capital. For all these options, the difference between the exercise price (EUR 43.00) and the closing price of the Erste Group Bank AG shares at the value date (EUR 46.60) was EUR 3.60.

In the **second exercise window** (August 2008), a further 900 options were exercised, resulting in the subscription for 900 bearer shares at an issue price of EUR 43.00. This generated issue proceeds of EUR 38,700.00, of which EUR 1,800.00 was allocated to subscribed capital and EUR 36,900.00 to additional paid-in capital. For all these options, the difference between the exercise price (EUR 43.00) and the closing price of the Erste Group Bank AG shares at the value date (EUR 40.98) was a negative amount of EUR 2.02.

All 2,998 options exercised in the 2008 financial year under the MSOP 2005 represented the first tranche. Of the total, 2,150 were exercised by managers and 848 by other employees. The estimated value of the individual options at the balance sheet date of 31 December 2008 was EUR 1.78 for options vested in 2005, EUR 3.06 for options vested in 2006 and EUR 4.09 for options vested in 2007.

Under the **ESOP 2008,** between 5 and 16 May 2008, a total of 644,104 shares were subscribed, at a price of EUR 34.50. The resulting issue proceeds of EUR 22,221,588.00 plus EUR 1,798,689.20 (from the difference between the issue price of EUR 34.50 and the quoted price on the 27 May 2008 value date of EUR 46.60 for 148,652 shares subscribed for by employees of Erste Group Bank AG – at that time still Erste Bank der österreichischen Sparkassen AG – charged to personnel expenses in the income statement) totalled EUR 24,020,277.20. Of this amount, EUR 1,288,208.00 was allocated to subscribed capital and EUR 22,732,069.20 to additional paid-in capital.

Under the ESOP 2008, board members subscribed for shares as follows:

Andreas Treichl	200 shares
Johannes Kinsky	200 shares

Employee share ownership plan and management share option plan

MSOP 2002: The MSOP comprises a maximum of 4,400,000 ordinary shares of Erste Group Bank AG after the stock split, represented by 1,100,000 options. The distribution of vested options among management board members, managers and eligible other staff of the Erste Group Bank AG group is shown in the tables below.

Terms of **MSOP 2002:** Each of the options, which are granted free of charge, entitles the holder to receive four shares; the transfer of options inter vivos is not permitted. The options granted in 2002 vested in three tranches, at which time they were credited to recipients' accounts: For the management board and other managers, on 24 April 2002, 1 April 2003 and 1 April 2004; for other key staff, on 1 June 2002, 1 June 2003 and 1 June 2004. The exercise price for all three tranches was set at the average market price of Erste Group Bank AG shares quoted in March 2002 (rounded down to the nearest half euro), which was EUR 66.00 per share. After the stock split performed in July 2004, the exercise price remains unchanged at EUR 66.00. This means that each option confers the right to purchase four shares of Erste Group Bank AG for a total of EUR 66.00, corresponding to a purchase price of EUR 16.50 per share. The option term begins when the options are credited to the option account (i.e., at vesting) and ends on the value date of the exercise window (defined below) of the fifth calendar year after vesting. Every year, notices of intention to exercise may be submitted beginning on the day immediately following the publication of preliminary consolidated net profit for the most recent completed financial year, but no earlier than 1 April and no later than 30 April of the year. This period represents the exercise window. It is followed by the one-year holding period, which ends on the value date of the year following exercise of the option. Up to 15% of the purchased shares may be sold during this holding period. In the 2007 financial year, 7,901 of the options vested in 2002 but not exercised were derecognised as worthless, and in the 2008 financial year, 12,449 of the options vested in 2003 but not exercised were derecognised as worthless; the total number derecognised as worthless was thus 20,350.

MSOP 2005: The MSOP comprises a maximum of 2,000,000 ordinary shares of Erste Group Bank AG, represented by 2,000,000 options. The distribution of vested options among management board members, managers and eligible other staff of the Erste Group Bank AG group is shown in the tables below.

Terms of MSOP 2005: Each of the options, which are granted free of charge, entitles the holder to receive one share; the transfer of options inter vivos is not permitted. The 2005 option grant dates were as follows: for the management board and other managers, 1 June 2005; for other key personnel, the grants occurred in three tranches, on 1 September 2005, 1 September 2006 and 31 August 2007. For all recipients the options vested in three tranches, at which time they were credited to recipients' accounts: 1 September 2005, 1 September 2006 and 31 August 2007. The exercise price for all three tranches was set at the average market price of Erste Group Bank AG shares quoted in April 2005 plus a 10% premium, rounded down to the nearest half euro. The resulting exercise price was EUR 43.00 per share. The option term begins at the grant date and ends on the value date of the last exercise window of the fifth calendar year after the year in which the option vested. Every year, notices of intention to exercise may be submitted within 14 days from the day of publication of the quarterly results for the first, second and third quarter of each financial year (three exercise windows per year). The holding period runs for one year from the value date of the share purchase. Up to 25% of the purchased shares may be sold during this holding period.

The **MSOP 2002** options credited and exercised by the balance sheet date had the following distribution among recipients:

	Credited	Exercised	Not yet exercised	Expired 2008
Andreas Treichl	12,000	12,000	0	0
Franz Hochstrasser	12,000	12,000	0	0
Herbert Juranek	3,000	3,000	0	0
Peter Kisbenedek, until 30. June 2008	6,000	6,000	0	0
Bernhard Spalt	3,000	3,000	0	0
Manfred Wimmer, since 1 September 2008	3,000	3,000	0	0
Total received by management board members	**39,000**	**39,000**	**0**	**0**
Other management	578,200	552,975	15,525	9,700
Other staff	294,914	275,342	8,922	10,650
Total options	**912,114**	**867,317**	**24,447**	**20,350**

The **MSOP 2005** options granted, vested and exercised had the following distribution among recipients:

	Granted	Credited	Exercised	Not yet exercised
Andreas Treichl	9,000	9,000	3,000	6,000
Franz Hochstrasser	9,000	9,000	3,000	6,000
Herbert Juranek	5,000	5,000	0	5,000
Johannes Kinsky, until 29 June 2008	3,000	3,000	0	3,000
Peter Kisbenedek, until 30. June 2008	9,000	9,000	3,000	6,000
Bernhard Spalt	5,000	5,000	0	5,000
Manfred Wimmer, since 1 September 2008	3,000	3,000	0	3,000
Total received by management board members	**43,000**	**43,000**	**9,000**	**34,000**
Other management	729,500	729,500	127,610	601,890
Other staff	686,741	686,741	99,572	587,169
Total options	**1,459,241**	**1,459,241**	**236,182**	**1,223,059**

Information about holdings of and transactions in Erste Group Bank AG shares by members of the management board and supervisory board (in number of shares):

Management board members:

Managing board member	At 31 Dec 2007	Additions 2008	Disposals 2008	At 31 Dec 2008
Andreas Treichl	167,440	17,200	0	184,640
Franz Hochstrasser	33,260*)	0	0	33,260
Bernhard Spalt	6,376	0	0	6,376
Johannes Kinsky, until 29 June 2008	0	500	500	0
Peter Kisbenedek, until 30. June 2008	3,400	0	3,400	0
Herbert Juranek	656	0	0	656
Manfred Wimmer, since 1 September 2008	0	13,132	0	13,132

*) In case of Franz Hochstrasser, 37,256 was reported by mistake at the end of 2007.

For members of the management board whose office term began or ended during the financial year 2008 their holdings in Erste Group Bank AG shares as of the date of inception or termination of the office term were considered as addition or disposal.

Supervisory board members held the following numbers of Erste Group Bank AG shares at the balance sheet date of 31 December 2008:

Supervisory Board member	Shares held
Georg Winckler	2,000
Bettina Breiteneder	2,560
Jan Homan	4,400
Wilhelm Rasinger	8,435
Theresa Jordis	2,900
Friedrich Rödler	849
John James Stack	34,161
Werner Tessmar-Pfohl, since 6 May 2008	1,268
Günter Benischek, until 9 August 2008	1,527
Ilse Fetik, until 9 August 2008	126
Erika Hegmala, until 9 August 2008	150
Christian Havelka	1,410
David Krieber, since 17 January 2008 until 9 August 2008	314
Andreas Lachs, since 9 August 2008	46
Friedrich Lackner	246
Bertram Mach, since 9 August 2008	46
Barbara Smrcka, since 9 August 2008	207
Karin Zeisel, until 17 January and since 9 August 2008	35

At 31 December 2008, supervisory board members held a total of 1,000 options in Erste Group Bank AG shares.

As far as can be determined, persons related to members of the management board or supervisory board held 9,665 shares of Erste Group Bank AG as of 31 December 2008.

Personnel expenses include EUR 6.8 million (prior year: EUR 31.3 million) related to the MSOP, ESOP and profit-sharing.

Authorised but unissued capital remaining at 31 December 2008, and participation capital at that date:

Under clause 6.10 of the articles of association there remains (after the utilisation in the financial years from 2002 to 2008) contingent capital of EUR 4,830,506.00, which may be utilised by issuing up to 2,415,253 bearer or registered shares at an issue price of at least EUR 2.00 (payable in cash) while excluding the subscription rights of existing shareholders.

Clause 7 of the articles of association authorises the management board, subject to approval by the supervisory board, to perform the contingent issue by 5 July 2011 of up to EUR 20,000,000.00 of subscribed capital in the form of up to 10,000,000 ordinary bearer or registered shares at an issue price of at least EUR 2.00 per share (payable in cash) while excluding the subscription rights of existing shareholders. This contingent capital serves to grant share options to employees, managers and management board members of Erste Group Bank AG or group companies.

The extraordinary general meeting on 2 December 2008 authorised the management board, subject to approval by the supervisory board and for a period of up to five years from the date of the resolution, to perform a rights issue of non-cumulative participation capital under section 23(4) Austrian Banking Act of up to EUR 2,700,000,000.00 in the form of participation certificates, with the terms of the participation capital certificates and the issue terms determined by the management board subject to approval by the supervisory board.

37) Segment reporting

The segment reporting of Erste Group follows the presentation and measurement requirements of IFRS.

New Segment Structure

In the interest of a clearer presentation of the group structure, the segment reporting has been aligned with the new structure of Erste Group and is now divided into four primary segments: Retail & SME, Group Corporate & Investment Banking, Group Markets and Corporate Center.

Retail & SME

The Retail & SME segment includes the individual, retail-focused regional banks of Erste Group. To enhance transparency and maintain continuity with the existing segmentation, the Austria division is divided into two subsegments, Erste Bank Oesterreich (including local subsidiaries) and Savings Banks. The latter subsegment consists of those savings banks which as a result of their membership in the cross-guarantee system are consolidated in the Erste Group accounts; the Savings Banks subsegment is thus unchanged from the past segmentation. In the Segment Central and Eastern Europe the individual subsidiaries continue to be reported separately.

Group Corporate & Investment Banking

The Group Corporate & Investment Banking segment includes all large corporate customers operating in the markets of Erste Group and having revenue of more than EUR 175 million: Austria currently generates the largest share of this segment's profit, but a significant increase in business activity in this area is visible in Central and Eastern Europe: Based on the results for the year 2008, important contributions came from the Czech Republic at a share of 4.1% of this segment`s profit, from Romania at 12.0%, Slovakia at 3.6% and Hungary and Croatia at a combined 3.4%. The other local subsidiaries accounted for minor shares of the total. Also part of Group Corporate & Investment Banking segment is the former International Business excluding treasury activities; the real estate business of Erste Group including the leasing subsidiary, Immorent; and investment banking (including equity capital markets).

Group Markets

The segment Group markets includes divisionalised business lines like Group Treasury and Debt Capital Markets.

Corporate Center segment

The Corporate Center segment continues to include group-wide services in the Marketing, Organisation, Information Technology and other departments that support the implementation of corporate strategy at group level. Consolidation effects and non-operating exceptional items are also recorded in this segment. Additionally, the Balance Sheet Management unit now forms part of the Corporate Center segment. The results of the local asset/liability business units continue to be reported in the individual subsegments.

Also recorded in Corporate Center is the amortisation of customer relationships at BCR and Erste Card Club d.d. totalling EUR 75.7 million (2007: EUR 81.1 million) and a write-down of goodwill of Erste Bank Serbia, Erste Bank Ukraine as well as BCR totalling EUR 566.8 million, reported under other result.

The new segmentation largely reflects the new organisational structure of Erste Group. It reduces the share of the CEE subsidiaries in the group results, as a portion of their local results is assigned to the holding company's GCIB and GM operating divisions. However, the new structure will provide a more precise representation of the performance of the individual subsidiaries' core business and improve comparability between countries.

Segmentation by core business

	Total		Private clients and SME		GCIB	
in EUR million	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
Net interest income	4,913.1	3,945.8	4,315.1	3,495.2	460.6	373.0
Risk provisions for loans and advances	(1,071.4)	(454.7)	(808.9)	(358.4)	(177.4)	(27.5)
Net fee and commission income	1,971.1	1,857.9	1,662.1	1,581.5	161.3	140.4
Net trading result	114.7	351.1	113.7	127.0	2.8	7.8
General administrative expenses	(4,001.9)	(3,642.1)	(3,468.1)	(3,221.0)	(172.8)	(150.4)
Other result[1)]	(1,349.3)	(165.4)	(469.6)	(101.5)	(44.4)	23.1
Pre-tax profit	**576.2**	**1,892.7**	**1,344.4**	**1,522.8**	**230.0**	**366.4**
Taxes on income	(177.3)	(371.0)	(264.4)	(300.5)	(51.6)	(82.7)
Profit from discontinued operations net of tax	639.7	28.4	8.0	28.4	0.0	0.0
Minority interests	(179.0)	(375.3)	(207.8)	(361.9)	(8.6)	(14.2)
Net profit after minority interests	**859.6**	**1,174.8**	**880.2**	**888.8**	**169.8**	**269.5**
Average risk-weighted assets	101,484.4	92,183.9	73,717.5	66,606.0	22,791.3	21,637.6
Average attributed equity	8,966.9	8,338.9	3,325.4	2,998.1	1,454.8	1,353.4
Cost/income ratio	**57.2%**	**59.2%**	**56.9%**	**61.9%**	**27.7%**	**28.9%**
ROE based on net profit after minority interests[2)]	**9.6%**	**14.1%**	**26.5%**	**29.6%**	**11.7%**	**19.9%**

1) Other result consists of four income statement items: other operating result, result from financial assets at fair value through profit or loss, result from financial assets available for sale, and result from financial assets held to maturity.

2) ROE = return on equity.

	Group Markets		Corporate Center	
in EUR million	**2008**	**2007**	**2008**	**2007**
Net interest income	263.8	108.9	(126.3)	(31.3)
Risk provisions for loans and advances	0.0	0.0	(85.2)	(68.9)
Net fee and commission income	137.8	155.8	9.9	(19.8)
Net trading result	15.8	213.2	(17.6)	3.2
General administrative expenses	(196.1)	(177.6)	(164.9)	(93.1)
Other result	(10.1)	2.8	(825.1)	(89.7)
Pre-tax profit	**211.1**	**303.0**	**(1,209.3)**	**(299.6)**
Taxes on income	(45.9)	(55.7)	184.7	67.8
Profit from discontinued operations net of tax	0.0	0.0	631.6	0.0
Minority interests	(13.7)	(19.9)	51.0	20.7
Net profit after minority interests	**151.5**	**227.5**	**(341.9)**	**(211.0)**
Average risk-weighted assets	1,851.3	1,266.1	3,124.3	2,674.1
Average attributed equity	189.8	149.3	3,996.9	3,838.1
Cost/income ratio	**47.0%**	**37.2%**	**-**	**-**
ROE based on net profit after minority interests	**79.8%**	**152.3%**	**-**	**-**

in EUR million	Cross Guarantee System Savings Banks 2008	Cross Guarantee System Savings Banks 2007	Erste Bank Oesterreich 2008	Erste Bank Oesterreich 2007	Austria 2008	Austria 2007
Net interest income	974.1	864.6	617.4	580.5	1,591.5	1,445.0
Risk provisions for loans and advances	(275.8)	(96.2)	(92.5)	(101.1)	(368.3)	(197.3)
Net fee and commission income	381.9	374.1	292.4	330.4	674.2	704.5
Net trading result	15.8	23.6	16.8	14.1	32.6	37.7
General administrative expenses	(919.6)	(828.3)	(654.1)	(649.9)	(1,573.6)	(1,478.2)
Other result	(155.9)	(17.3)	(84.8)	(15.8)	(240.7)	(33.1)
Pre-tax profit	**20.5**	**320.4**	**95.2**	**158.2**	**115.7**	**478.7**
Taxes on income	(5.4)	(64.9)	(20.0)	(40.7)	(25.4)	(105.7)
Profit from discontinued operations net of tax	0.0	0.0	4.9	9.4	4.9	9.4
Minority interests	(41.2)	(235.4)	1.4	(8.2)	(39.8)	(243.7)
Net profit after minority interests	**(26.1)**	**20.0**	**81.5**	**118.7**	**55.4**	**138.8**
Average risk-weighted assets	24,608.5	22,993.6	14,316.3	12,917.0	38,924.9	35,910.6
Average attributed equity	218.7	229.0	981.1	889.0	1,199.9	1,118.1
Cost/income ratio	**67.0%**	**65.6%**	**70.6%**	**70.3%**	**68.5%**	**67.6%**
ROE based on net profit after minority interests	**-**	**8.8%**	**8.3%**	**13.4%**	**4.6%**	**12.4%**

in EUR million	Czech Republic 2008	Czech Republic 2007	Romania 2008	Romania 2007
Net interest income	1,092.7	820.1	741.6	510.8
Risk provisions for loans and advances	(116.6)	(70.1)	(121.2)	34.5
Net fee and commission income	424.9	342.2	236.3	248.9
Net trading result	2.6	18.4	27.4	28.1
General administrative expenses	(746.4)	(634.6)	(457.6)	(516.9)
Other result	(217.2)	(15.2)	13.2	(11.2)
Pre-tax profit	**439.9**	**460.9**	**439.8**	**294.2**
Taxes on income	(89.7)	(92.5)	(73.2)	(48.7)
Profit from discontinued operations net of tax	9.7	14.4	(6.5)	4.6
Minority interests	(10.1)	(10.5)	(120.0)	(81.8)
Net profit after minority interests	**349.8**	**372.3**	**240.1**	**168.3**
Average risk-weighted assets	11,484.8	10,512.8	9,375.7	8,457.5
Average attributed equity	808.4	732.1	449.4	412.7
Cost/income ratio	**49.1%**	**53.7%**	**45.5%**	**65.6%**
ROE based on net profit after minority interests	**43.3%**	**50.8%**	**53.4%**	**40.8%**

in EUR million	Slovakia 2008	Slovakia 2007	Hungary 2008	Hungary 2007	Croatia 2008	Croatia 2007
Net interest income	334.8	291.4	294.3	245.7	193.6	158.0
Risk provisions for loans and advances	(81.4)	(37.4)	(69.1)	(59.7)	(24.7)	(18.3)
Net fee and commission income	108.4	91.9	130.7	121.6	77.6	66.0
Net trading result	20.2	13.8	4.5	13.4	12.8	10.5
General administrative expenses	(247.2)	(218.2)	(223.8)	(207.2)	(128.9)	(112.2)
Other result	(34.5)	(27.8)	10.8	(10.7)	(1.7)	(5.3)
Pre-tax profit	**100.4**	**113.6**	**147.4**	**103.1**	**128.7**	**98.8**
Taxes on income	(17.6)	(10.0)	(37.7)	(26.3)	(25.9)	(21.7)
Profit from discontinued operations net of tax	0.0	0.0	0.0	0.0	0.0	0.0
Minority interests	0.0	0.0	(0.2)	(0.2)	(36.1)	(25.9)
Net profit after minority interests	82.7	103.6	109.5	76.5	66.7	51.2
Average risk-weighted assets	4,263.9	3,825.1	4,674.8	4,129.0	3,619.8	3,079.3
Average attributed equity	301.3	270.0	320.9	284.8	158.4	135.2
Cost/income ratio	**53.3%**	**55.0%**	**52.1%**	**54.4%**	**45.4%**	**47.8%**
ROE based on net profit after minority interests	**27.5%**	**38.4%**	**34.1%**	**26.9%**	**42.1%**	**37.8%**

in EUR million	Serbia 2008	Serbia 2007	Ukraine 2008	Ukraine 2007	Central and Eastern Europe 2008	Central and Eastern Europe 2007
Net interest income	33.5	16.2	33.0	8.0	2,723.6	2,050.2
Risk provisions for loans and advances	(6.6)	0.1	(21.0)	(10.3)	(440.6)	(161.1)
Net fee and commission income	7.4	5.4	2.6	1.0	987.9	877.1
Net trading result	4.1	1.5	9.5	3.7	81.1	89.3
General administrative expenses	(34.3)	(28.4)	(56.2)	(25.3)	(1,894.4)	(1,742.8)
Other result	1.8	1.8	(1.3)	(0.1)	(228.9)	(68.4)
Pre-tax profit	**5.9**	**(3.4)**	**(33.4)**	**(23.0)**	**1,228.7**	**1,044.1**
Taxes on income	0.4	0.5	4.7	3.9	(239.0)	(194.8)
Profit from discontinued operations net of tax	0.0	0.0	0.0	0.0	3.1	19.0
Minority interests	(1.6)	0.2	0.0	0.0	(168.0)	(118.2)
Net profit after minority interests	**4.7**	**(2.7)**	**(28.7)**	**(19.1)**	**824.9**	**750.0**
Average risk-weighted assets	815.8	466.6	557.8	225.1	34,792.7	30,695.4
Average attributed equity	44.5	26.6	42.8	18.5	2,125.6	1,880.0
Cost/income ratio	**76.2%**	**-**	**-**	**-**	**50.0%**	**57.8%**
ROE based on net profit after minority interests	**10.5%**	**-**	**-**	**-**	**38.8%**	**39.9%**

38) Assets and liabilities denominated in foreign currency and outside Austria

Assets and liabilities not denominated in EUR were as follows:

in EUR million	2008	2007
Assets	115,509	99,632
Liabilities	85,148	82,951

The assets and liabilities outside Austria are given below:

in EUR million	2008	2007
Assets	146,334	131,708
Liabilities	100,668	101,191

39) Leases

a) Finance leases

Erste Group leases both movable property and real estate to other parties under finance lease arrangements. For the finance lease receivables included in this item, the reconciliation of the gross investment in leases to the present value of the minimum lease payments is as follows:

in EUR million	2008	2007
Outstanding minimum lease payments	7,238	6,518
Non-guaranteed residual values	1,246	970
Gross investment	**8,484**	**7,488**
Unrealised financial income	2,134	1,754
Net investment	**6,350**	**5,733**
Present value of non-guaranteed residual values	699	487
Present value of minimum lease payments	**5,651**	**5,246**

The maturity analysis of gross investment in leases and present values of minimum lease payments under non-cancellable leases is as follows (residual maturities):

in EUR million	Gross investment 2008	Gross investment 2007	Present value of minimum lease payments 2008	Present value of minimum lease payments 2007
< 1 year	1,542	1,352	1,275	1,157
1-5 years	3,787	3,362	2,889	2,694
> 5 years	3,155	2,774	1,487	1,394
Total	**8,484**	**7,488**	**5,651**	**5,246**

In the reporting period the total amount of accumulated allowance for uncollectible minimum lease payments is as follows EUR 49 million (2007: 49 million).

The total amount of contingent rents from finance leases recognised as income in the period was EUR 54 million (2007: 25 million).

b) Operating Leases

Under operating leases, Erste Group leases both real estate and movable property to other parties.

In the subsequent years, Erste Group Bank AG is to receive minimum lease payments from non-cancellable operating leases as follows:

in EUR million	2008	2007
< 1 year	24	11
1-5 years	78	26
> 5 years	49	25
Total	**151**	**62**

The total amount of contingent rent from operating leases recognised as income in the reporting period was EUR 0.2 million (2007: EUR 0.0 million).

40) Related party transactions

Loans and advances to and amounts owed to unconsolidated subsidiaries and to other investments were as follows:

in EUR million	2008	2007
Loans and advances to credit institutions		
Associates accounted for at equity	137	73
Other investments	1	27
Total	**138**	**100**
Loans and advances to customers		
Associates accounted for at equity	383	233
Other investments	859	1,020
Total	**1,242**	**1,253**
Financial assets - at fair value through profit or loss		
Associates accounted for at equity	3	1
Other investments	6	8
Total	**9**	**9**
Financial assets - available for sale		
Associates accounted for at equity	13	11
Other investments	8	10
Total	**21**	**21**
Financial assets - held to maturity		
Associates accounted for at equity	0	4
Other investments	4	6
Total	**4**	**10**
Deposits by banks		
Associates accounted for at equity	47	47
Other investments	0	20
Total	**47**	**67**
Customer deposits		
Associates accounted for at equity	24	37
Other investments	201	194
Total	**225**	**231**

At the end of 2008, DIE ERSTE oesterreichische Spar-Casse Privatstiftung, a foundation, held approximately 31.12% of the shares of Erste Group Bank AG, making the foundation the largest shareholder. In 2008 the foundation received a dividend of EUR 73.7 million on its shareholding in Erste Group Bank AG (for the 2007 financial year). The purpose of the foundation, which is intended to be achieved particularly by holding a substantial equity interest in Erste Group Bank AG, is to support social, scientific, cultural and charitable institutions as well as to generally promote the guiding principles of the savings bank philosophy. At 31 December 2008 the members of the foundation's management board were Andreas Treichl (chairman of the management board of Erste Group Bank AG), Dietrich Karner, Richard Wolf and Boris Marte. At that date the foundation's supervisory board had nine members, two of whom were also members of the supervisory board of Erste Group Bank AG.

At 31 December 2008, in respect of the foundation, Erste Group had accounts payable of EUR 34.7 million and accounts receivable of EUR 283.8 million. In addition, standard derivative transactions on normal market terms were in place for hedging purposes between Erste Group and the foundation at the end of 2008. These were interest rate swaps with caps and floors in the notional amount of EUR 247.4 million each.

In 2008 Erste Group accrued interest income of EUR 13.3 million receivable from and interest expenses of EUR 3.1 million payable to the foundation from accounts receivable and payable and from the derivative transactions outlined.

At the end of 2008, loans and advances to members of the management board totalled EUR 882 thousand (31 December 2007: EUR 663 thousand). Loans and advances to persons related to members of the management board totalled EUR 59 thousand at 31 December 2008 (31 December 2007: EUR 29 thousand). Loans to members of the supervisory board totalled EUR 294 thousand (end of 2007: EUR 362 thousand). Loans and advances to persons related to members of the supervisory board totalled EUR 33 thousand (31 December 2007: EUR 15 thousand). The applicable interest rates and other terms (maturity dates and collateral) represent market terms. In 2008 members of the management board made loan repayments on loans totalling EUR 489 thousand (2007: EUR 12 thousand) and repayments amounting to EUR 6 thousand were made by the members of the supervisory board (2007: EUR 400).

Total compensation of management board members, who were assigned to the management board of Erste Bank der oesterreichischen Sparkassen AG in course of the reorganisation, amounted to EUR 3.5 million.

In the year under review, management board members who held office in 2008 received remuneration (including compensation in kind) totalling EUR 10,803 thousand (2007: EUR 15,190 thousand) in this capacity. This represented 0.5% of the total personnel expenses of the Erste Group. This remuneration included severance payments of EUR 1,050 thousand. In the 2008 financial year, EUR 1,559 thousand (2007: EUR 664 thousand) was paid to former members of the management board or their surviving dependants.

The breakdown of management board compensation paid in 2008 was as follows:

in EUR thousand	Bonus for the year 2007	Salary for the fiscal year 2008	Bonus for the year 2008	Other compen-sation for the year 2008	Total 2008 (incl. bonus for the year 2007)
Managing board member					
Andreas Treichl	1,756	1,209	0	352	3,317
Franz Hochstrasser	1,261	609	0	143	2,013
Bernhard Spalt	483	609	0	62	1,154
Peter Kisbenedek, until 30 June 2008	350	355	0	1,087	1,792
Johannes Kinsky, until 29 June 2008 (†)	900	305	0	103	1,308
Herbert Juranek	300	609	0	61	970
Manfred Wimmer, since 1 September 2008	0	202	0	47	249

The performance-based compensation paid in 2008 related to the financial results achieved in the 2007 financial year (Cash-ROE of 14.6%, growth of 26% in net profit after minority interests to EUR 1,174.7 million). As early as autumn 2008, the management board of Erste Group waived its performance-related compensation for the year 2008. The item other compensation includes pension fund contributions and various non-cash compensation. Payments made in the reporting period for severance payments and for unused holidays are also included in other compensation.

In 2008 the management board of Erste Group Bank AG did not receive board emoluments or other compensation from fully consolidated subsidiaries of Erste Group Bank AG. The compensation of management board members is based on the individual's responsibilities, the achievement of corporate targets and the group's financial situation.

In 2008, the members of the supervisory board of Erste Group Bank AG who served in 2008 were paid a combined total of EUR 507 thousand (2007: 491 thousand) in this capacity. Members of the supervisory board received the following compensation for board positions in fully consolidated subsidiaries of Erste Group Bank AG: Heinz Kessler: EUR 39,351; Georg Winckler: EUR 800; Friedrich Rödler: EUR 2,250; and Werner Tessmar-Pfohl: EUR 25,600. There were no other transactions with members of the supervisory board. Companies related to members of the supervisory board invoiced the following amount from other transactions:

In 2008, DORA BRUGGER JORDIS Rechtsanwälte GmbH, a law firm in which Theresa Jordis is a partner, invoiced Erste Group Bank AG a total of EUR 201,433.32 for several mandates. Friedrich Rödler is senior partner at PricewaterhouseCoopers Austria. Companies of this group invoiced Erste Group Bank AG in total EUR 28,700 for consulting mandates.

The following amounts of compensation were paid to the individual members of the supervisory board:

in EUR thousand	Supervisory Board compensation	Meeting fees	Total
Supervisory Board member			
Heinz Kessler	50	17	67
Georg Winckler	38	15	53
Theresa Jordis	38	16	54
Bettina Breiteneder	25	10	35
Elisabeth Gürtler	25	8	33
Jan Homan	25	6	31
Brian Deveraux O´Neill	15	0	15*)
Wilhelm Rasinger	25	12	37
Friedrich Rödler	25	16	41
Hubert Singer, until 6 May 2008	25	1	26
John James Stack	15	2	17
Werner Tessmar-Pfohl, since 6 May 2008	0	2	2
Gabriele Zuna-Kratky	25	6	31
Josef Kassler, until 31 May 2007	10	0	10
Lars-Olof Ödlund, until 31 May 2007	10	0	10
Günter Benischek, until 9 August 2008	0	4	4
Erika Hegmala, until 9 August 2008	0	5	5
Ilse Fetik, until 9 August 2008	0	3	3
Christian Havelka	0	11	11
Friedrich Lackner	0	10	10
Andreas Lachs, since 9 August 2008	0	6	6
David Krieber, since 17 January 2008 until 9 August 2008	0	2	2
Bertram Mach, since 9 August 2008	0	5	5
Barbara Smrcka, since 9 August 2008	0	2	2
Karin Zeisel, until 17 January and since 9 August 2008	0	4	4

*) Compensation was not paid out.

The compensation of the supervisory board members depends on the individual’s responsibilities, the business volume and the company’s financial situation.

Based on a resolution of the annual general meeting held on 6 May 2008, the supervisory board at its constituting meeting set the following annual compensation structure:

in EUR	Number	Allowance per person	Total allowance
President	1	50,000	50,000
Vice Presidents	2	37,500	75,000
Members	9	25,000	225,000
Total	**12**		**350,000**

The specific compensation of each member is calculated by dividing the annual allowance by twelve and multiplying the result by the number of months served in the respective position during the year.

41) Collateral

The following assets were pledged as security for liabilities:

in EUR million	2008	2007
Loans and advances to credit institutions	1,082	382
Loans and advances to customers	2,549	2,266
Trading assets	906	295
Other financial assets[1)]	8,671	9,006
Total	**13,208**	**11,949**

1) Other financial assets consist of financial assets held to maturity, available for sale, at fair value through profit or loss.

Collaterals were pledged in connection with securities repurchase transactions, securities lending with cash collateral and other collateral agreements.

The fair value of collateral received that may be repledged or resold even without the security provider`s default was EUR 3,375 million (31 December 2007: EUR 4,268 million). Of this total, collateral with a fair value of EUR 200 million (31 December 2007: EUR 125 million) was resold or repledged.

42) Securities lending and repurchase transactions

	2008		2007	
in EUR million	Carrying amount of assets pledged as collateral	Carrying amount of liabilities	Carrying amount of assets pledged as collateral	Carrying amount of liabilities
Repurchase transactions	4,817	4,946	4,708	4,628
Securities lending agreement	497	0	24	0
Total	**5,314**	**4,946**	**4,732**	**4,628**

Assets received and transferred by Erste Group under sale and repurchase agreements are largely securities.

43) Risk report, risk policy and risk strategy

Taking risks in a conscious and selective manner and their professional management represent a core function for every bank. Erste Group pursues a proactive risk policy that also aims for an optimal balance of risks and rewards in order to achieve a sustainable, high return on equity.

Erste Group uses a control and risk management system that is proactive and tailored to the group's risk profile. This system is based on a clear risk strategy consistent with the group's business strategy. The system's goal is the early identification and management of risks and trends. In addition to meeting the internal requirements of effective and efficient risk management, external – and especially regulatory – objectives are also fulfilled.

Given the group's business strategy, the most relevant risks are credit risks, market risks and operational risks. As well, a particular focus is on liquidity and business risks. In addition to managing these key risks, the group has established a control and risk management framework that also takes full account of all other risks.

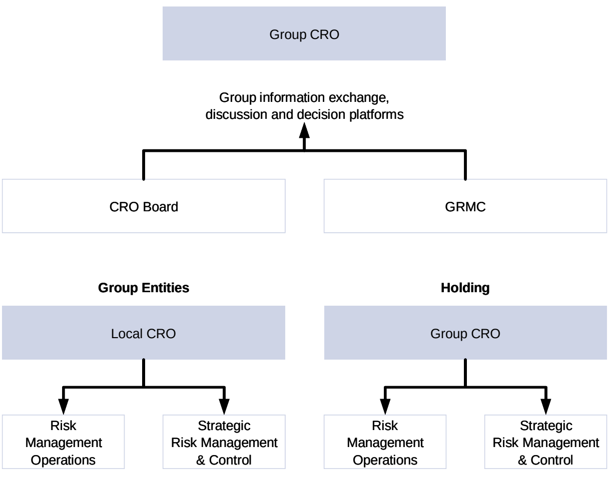
Disclosure in accordance with section 26 Austrian Banking Act and the disclosure regulation

Erste Group Bank AG uses the Internet as the medium for publishing disclosures under section 26 Banking Act and the Disclosure Regulation. Details are available on the website of Erste Group at www.erstegroup.com/ir.

Risk management organisation

Risk monitoring and control is achieved through a clear organisational structure with defined roles and responsibilities, delegated authorities, and a limit frame for risks.

Organisational Structure of Risk Management & Control within Erste Group



The management board, and in particular the group's chief risk officer (CRO), perform their oversight functions with due care. The CRO is responsible for the – business-independent – risk control and risk management across all risk types and business lines.

Risk control and management are performed on the basis of the business strategy and risk strategy approved by the management board and the strategic risk frame.

In the interest of the effective and optimised steering of the group, committees have been established that, in addition to operational control functions, also exercise strategic management responsibilities. The most senior risk panel in Erste Group Bank AG is the Risk Committee.

The roles of the Risk Committee, which consists of the management board and senior managers, are largely the approval of methods and processes of risk control and risk management, and responsibility for the risk infrastructure. The Risk Committee also allocates capital at the macro level and sets the risk frame for the group as a whole. This committee is the central risk control body which is frequently and regularly briefed on the risk situation (both retrospectively and prospectively, and across all risk types) and which analyses the situation and trends and makes the highest-level management decisions.

The Chief Risk Officer in his particular function is accountable for the implementation of and adherence to the risk strategy. The CRO especially ensures the availability of appropriate infrastructure and staff as well as methods, standards and processes.

Risk identification, measurement, assessment, approval, monitoring, steering and limit-setting of risk are performed in the group's operating entities.

At group level, the following units reporting to the CRO are relevant in particular:

- **Group Risk Management**
- **Group Retail Risk Management**
- **Group Legal**
- **Group Compliance**

Group Risk Management, exercising the risk control function, is responsible primarily for the further refinement and group-wide implementation of the risk management strategy, notably the infrastructure, methods and processes. This unit comprises the Group Risk Control, Group Credit Risk Reporting and Group Market & Liquidity Management departments as well as the corporate functions Basel II and (since the middle of the year) Group Fraud Management. Group Risk Management also has a special interface function in relation to the individual group entities and their risk management units and ensures optimum communication and information flow in the group.

Group Retail Risk Management as a new unit was formed to focus on retail business, the group's primary business. It coordinates retail risk management processes and standards group-wide. Group Legal, in addition to the usual roles of a legal department, also has responsibility for anti-money laundering, in the AML Compliance department. Group Compliance is responsible for the implementation of and adherence to the SCC (the Standard Compliance Code of the Austrian banking industry) and the compliance-related parts of the Austrian Securities Supervision Act of 2007.

Besides Erste Group Bank AG in its special role as a holding company, the subsidiaries too have risk control and management units. These are fitted to the local requirements and headed by the respective entity's chief risk officer.

The restructuring of Erste Group prompted the formation of two new bodies, the CRO Board and the Group Risk Management Committee. On the CRO Board, every bank in the group is represented by its CRO. Chaired by the CRO of Erste Group Bank AG, the CRO board has responsibility for the group-wide coordination of risk management and for ensuring uniformity of risk management standards across the group. On the Group Risk Management Committee, the subsidiaries' department heads for strategic risk management provide decision support to the CRO Board and direct working groups on current risk-related topics.

At every level of the risk management process in the group – particularly concerning market and credit risks – the risk management and control functions are exercised independently of the front office functions to be supervised (segregation of risk origination and risk control).

Risk Control

The Group Risk Management unit performs the function of the central and independent risk control unit required by section 39 (2) of the Austrian Banking Act. As part of this unit, the Group Risk Control department produces group guidelines for processes related to risk management. Group Risk Control is in charge of aggregate group-wide risk management, management of operational risks, and key tasks regarding the group's risk architecture. To do justice to this broad mandate, Group Risk Control is divided into four groups focusing respectively on enterprise-wide risks, operational risks, credit risk methods and rating methods.

The Group Credit Risk Reporting department has responsibility for risk data warehousing as well as internal and external credit risk reporting. It monitors the group's credit risks and supervises compliance with relevant risk limits.

The group-wide daily calculation, analysis and reporting of market and liquidity risks is provided by the Group Market and Liquidity Risk Management department. The ongoing risk calculations are performed using the implemented models, whose quality is continually refined by the department.

Being independent of the business units, Group Risk Management ensures that all measured risks are within the limits approved by the management board.

Risk control process

Erste Group's independent risk control process consists of five main steps:

_**Risk identification** at Erste Group refers to the detection of all relevant risks related to banking operations. A systematic and structured approach to this task is emphasised. In addition to existing risks, potential risks also need to be identified. The aim of risk identification is the permanent, timely, rapid, complete and cost-effective capture of all individual risks that have a bearing on the achievement of Erste Group's business targets. However, risk identification is concerned not only with the early detection of risks themselves, but also with the most complete possible recognition of all sources of risk.

_**Risk measurement** at Erste Group refers to the valuation and analysis of all quantifiable risks based on statistical methods. In addition, stress scenarios are defined, with the goal of quantifying the losses that may be triggered by extremely adverse, highly unlikely events. The information gained from stress test scenarios complements Value-at-Risk (VaR) results, making it easier to predict the effects of potential extreme market movements.

_**Risk aggregation** at Erste Group refers to the compilation of the results of risk measurement for the individual risk types (taking into account diversification effects) into an aggregate potential loss from the assumption of risk. This resulting aggregate measure is known as economic capital (representing VaR at a confidence level of 99.95% over a one-year time period). In a multi-stage process, this aggregate total potential loss from the assumption of risk (i.e., economic capital) is compared to the resources (profitability, reserves, equity and subordinated liabilities) available to cover potential losses. At Erste Group this is done as part of the determination of risk-bearing capacity.

_**Risk limit-setting** Erste Group refers to the setting of a loss ceiling (aggregate bank limit) by management through the Risk Committee based on the periodic determination of risk-bearing capacity, which takes into account the bank's equity base and profitability situation.

_**Risk reporting** at Erste Group refers to the continual reporting of the risk calculation results for the individual risk types to management.

Risk types

Market risk

Fluctuation in interest rates, exchange rates, security prices and commodity prices creates market risks. Market risks derive from short-term trading (the trading book) in instruments whose prices are fixed daily, as well as from the traditional banking business (the banking book).

Taking into account the bank's risk-bearing capacity and projected earnings, the management board sets the aggregate limit for the trading book in the Risk Committee. The aggregate limit is then allocated by the Market Risk Committee based on a recommendation by the **Group Market & Liquidity Risk Management** unit. All market risk activities in the trading book are assigned risk limits that, in the aggregate, are statistically consistent with the aggregate Value-at-Risk limit covering all market risks of Erste Group. Limit compliance is verified at two levels: by the appropriate local decentralised risk management unit and by **Group Market & Liquidity Risk Management.**

A key step in limit-setting is the estimation of the potential losses that could result from market movements. This amount – **Value-at-Risk** – is calculated at group level on a daily basis and relayed to the management board via the electronic management information system. Value-at-Risk is determined by the historical simulation method. In its analysis Erste Group uses a 99% confidence level and holding periods of one and ten days. The validity of the statistical methods applied is continually verified by backtesting.

Extreme market situations can exert a strong influence on the value of trading positions and have extraordinary effects on trading results. These are particularly market movements with a low probability of occurrence. Relying on purely statistical methods such as Value-at-Risk to measure risk does not adequately take into account the consequences of crisis situations. For this reason Erste Group reinforces its Value-at-Risk-based risk measurement with stress testing by several methods (historical worst, extreme value theory, scenario analysis). The results of these assessments too are also made available to the management board via the electronic management information system.

The market risk model approved by the Austrian Financial Market Authority is used to determine the minimum regulatory capital requirements of Erste Group under the Austrian Banking Act. The calculation employs the most favourable multiplier possible (3), assigned by the Financial Market Authority on the basis of an appraisal by the Austrian National Bank.

The following tables show the Value-at-Risk amounts for the end of December 2008 and December 2007 (in EUR thousand, 99% confidence level, holding period of one day):

2008	Total	Interest	Currency	Shares	Commodity	Volatility
Erste Group	42,657	29,892	2,719	5,350	227	2,164
Banking book	37,168	37,023	68	867	3	0
Trading book	7,789	4,309	2,685	4,869	225	2,164

2007	Total	Interest	Currency	Shares	Commodity	Volatility
Erste Group	26,811	24,172	1,230	9,417	166	1,558
Banking book	23,562	22,907	490	3,906	102	0
Trading book	5,543	1,752	873	5,716	128	1,558

Operational management of market risk

The Group Market & Liquidity Risk Management department is responsible for day-to-day control of the market risk associated with trading activities. Its duties are the monitoring of compliance with the market risk, position risk and transaction risk limits; risk reporting; supporting the trading desk; monitoring of market prices; participation in new-product testing; preparation of the risk manual; and the management of market risks.

Treasury performs the measurement of market risks relating to the banking book. The Balance Sheet Management unit submits monthly reports to the Asset Liability Committee (ALCO) on the interest rate risk of Erste Group as decision support for the adjustment of balance sheet risks.

Credit risk

Credit risk arises in traditional lending business (losses incurred by the default of obligors or by the need to provision assets as a result of the deteriorating credit quality of borrowers) as well as from trading in market risk instruments (counterparty risk). Country risks are recognised implicitly in the calculation of credit risk.

The central database used for credit risk management is the group data pool, in which all data relevant to credit risk management, to performance management and to the determination of risk-weighted assets and of the regulatory capital requirement are regularly fed.

Thanks to this single data pool, all risk control activities of the credit risk management, performance management and reporting units are harmonised group-wide on the basis of the most convergent and consistent data possible.

The Group Credit Risk Reporting department uses the group data pool for centralised credit risk reporting (both at group level and for the individual group companies). This ensures centralised analyses and application of ratios according to unified methods and segmentation across the group, using COGNOS as the group wide reporting tool.

The credit risk reporting established on this basis comprises regular reports on the group's credit portfolio for external and internal audiences and permits the continuous monitoring of risk developments, enabling management to take control measures. In-house users include, above all, the supervisory board and management board of Erste Group Bank AG, as well as the risk managers, business unit directors and internal audit staff.

This organisational unit is also in charge of the rollout and continual technical improvement of a group-wide online limit system for capping counterparty risk arising from treasury transactions, as well as for surveillance of credit risk from exposure to clients that fall into the asset segments "financial institutions", "sovereigns" and "international large corporates" and which do business with several members of Erste Group.

The operational credit decisions are made by the decentralised credit risk management units (Risk Management International and the credit risk management units at the banking subsidiaries).

Risk Management International is the operational credit risk management arm of the holding company. This department covers the customer groups/asset classes from a credit risk perspective where a top-level, group-wide review is required. The asset classes involved are country risks, sovereigns, banks, securitisations (ABS and CDO), large corporates, and real estate risks. Risk Management International also provides specific credit risk reports on the already cited centrally managed portfolios of the holding company and is in charge of process development for credit risk management and of the implementation of group standards for the asset classes named above.

BASEL II

Having passed the required audit conducted by the Austrian supervisory authority in 2006, Erste Group (including almost all cross-guarantee system savings banks and Česká spořitelna a.s.) successfully qualified for Basel II advanced internal ratings based approaches to the measurement of credit risk, effective from the entry of the new regulations into force on 1 January 2007. For credit risk, Erste Group applies the Advanced IRB Approach in the retail segment and the Foundation IRB Approach in all other Basel segments. In the year under review, these standards were also adopted by Erste Bank Hungary Nyrt. and Slovenská sporiteľňa a.s.

According to the current rollout plan for the Erste Group, the transition from the Standard Approach to the IRB Approach is to be made in 2009 for Erste Bank Croatia and in the subsequent years for Banca Comercială Română, Erste Bank Serbia and Open Joint-Stock Company "Erste Bank" (Erste Bank Ukraine).

Operational risk

In line with banking law, Erste Group defines operational risk as "the risk of loss resulting from inadequacy or failure of internal processes, people or systems, or from external events." Both quantitative and qualitative methods are used to identify operational risks, and are refined further in order to capture all information relevant to risk management. Consistent with international practice, the responsibility for managing operational risk rests with line management.

The quantitative measurement methods are based on internal loss experience data, which are collated across the group using a standard methodology and entered in a central data pool. Additionally, in order to be able to model losses that have not occurred in the past but are nonetheless possible, scenarios and external data are also used (Erste Group is a member of ORX, the international loss data consortium).

Besides the quantitative methods, qualitative approaches are used to determine operational risk, primarily by performing risk assessment surveys. The results and risk control suggestions from these responses by experts are reported to line management and thus serve as the support to reduce operational risks. In order to also ensure early detection of changes in risk potential that may lead to losses, Erste Group is working to define key risk indicators.

Since the beginning of 2004 the insurance cover procured by Erste Group is combined in a group-wide insurance programme. This reduced the cost of meeting the group's traditional property insurance needs and thus made it possible to buy additional insurance for previously uninsured banking-specific risks. The combination of potential economies and additional insurance cover, without an increase in overall cost, is achieved by retaining part of the losses in a captive reinsurance firm, thus permitting diversification of risk in the group.

The quantitative and qualitative methods outlined, including the insurance strategy and the modelling approaches, form the operational risk framework of Erste Group. Through periodic reporting, relevant information from these areas is communicated to the management board on a quarterly basis. A key measure in this context is operational Value-at-Risk, which is calculated for the group as a whole.

The operational risk framework and the structure of operational risk management and control at Erste Group are also defined in the risk rulebook, thus safeguarding the complete identification and consistent treatment of operational risks.

The regulatory audit for the adoption of an Advanced Measurement Approach (the loss distribution approach) at group level and for major subsidiaries (Ceská sporitelna a.s., Slovenská sporitelna a.s. and Erste Bank Hungary Nyrt.) began during the year under review. The audit is expected to conclude in 2009 with a positive result. In 2008 the regulatory capital required to cover operational risk was determined by the Basic Indicator Approach.

Group-wide Risk Management

At Erste Group, the regulatory requirements for qualitative risk management that result from pillar 2 (Supervisory Review Process) of Basel II and from the ICAAP (Internal Capital Adequacy Assessment Process) consultation paper of the CEBS (Committee of European Banking Supervisors) are fulfilled by the long-established calculation of risk-bearing capacity.

Determination of risk-bearing capacity

The main tool for assuring an appropriate level of capital resources at all times across all risks relevant to the group, and thus for assuring the group's continued viability, is the calculation of its risk-bearing capacity. In essence, this involves comparing the group's risks to the amount of risk cover available.

More specifically, the risk side of the calculation consists especially of determining the economic capital (the total potential loss from the assumption of risk) from unexpected losses in respect of credit, market and operational risk. This economic capital is then compared to the risk protection capital held (broken down into equity, subordinated liabilities, reserves and retained earnings), thus determining the bank's ability to absorb these potential unexpected losses. The risk is calculated at a confidence level of 99.95%. The calculation of risk-bearing capacity is designed in accordance with the business strategy and risk profile of Erste Group.

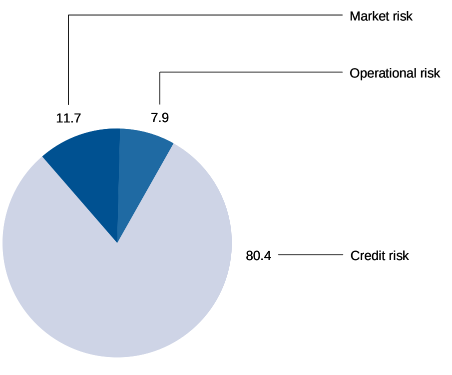
The sum of the risks and of the risk protection capital held represents the result of the group's active risk management and capital management. The management procedures involve both the strategic limitation of risks and, for example, the modelling of risks and risk trends. The aggregate risk limit for the group is set based on risk history, risk trends, market trends and the amount and composition of risk protection capital held. The picture provided by the calculation of risk-bearing capacity is rounded out by stress tests, which portray the effects of extremes and shocks to be considered in the strategic management of the group.

The management board and risk management committees are briefed regularly, and at least quarterly, on the results of the determination of risk-bearing capacity, including the movements in risks and available risk protection capital, the degree of utilisation of the risk limit and modelling of the trends in risks and risk protection capital held. The calculation of risk-bearing capacity forms a vital part of the management of risk and capital at Erste Group.

Erste Group´s aggregate risk by risk type

The chart shows the composition of the regulatory capital requirement as of 31 December 2008 according to the type of risk.

ICAAP economic capital requirements in %, 2008



Credit risk

Credit exposure represents the total of the following balance sheet items: loans and advances to credit institutions and loans and advances to customers; fixed-income securities held for trading, at fair value through profit or loss, or available for sale; held-to-maturity investments; and derivatives and credit risks held off-balance sheet (including undrawn credit commitments); in 2007, this item additionally included the investments of the insurance companies sold in 2008. The changes in risk provisions are explained in notes 2 and 16.

Credit exposure 2008

in EUR million	Total loans and advances to credit institutions and customers (incl. fixed-income securities)	Guarantees/ letters of credit Undrawn commitments	Total 2008
Private households	47,362	3,409	50,771
Financial and insurance services	41,686	8,865	50,551
Public administration	20,906	2,918	23,824
Real estate and housing	16,584	4,470	21,054
Manufacturing	10,614	5,265	15,879
Trade	10,023	3,623	13,646
Construction	5,731	3,633	9,364
Services	6,284	1,562	7,846
Transport and communication	4,842	1,261	6,102
Hotels and restaurants	3,797	715	4,512
Other	10,480	1,640	12,120
Total	**178,308**	**37,361**	**215,668**

Credit exposure 2007*)

in EUR million	Total loans and advances to credit institutions and customers (incl. fixed-income securities)	Guarantees/ letters of credit Undrawn commitments	Total 2007
Banking and insurance	42,536	12,672	55,208
Private customers	42,188	2,334	44,522
Public administration, social security	21,494	4,037	25,531
Real estate and other business activities	23,044	6,839	29,883
Manufacturing	10,528	5,040	15,568
Trade	10,065	3,241	13,306
Construction	3,763	2,701	6,464
Hotels and restaurants	3,402	498	3,900
Transport and communication	3,520	902	4,422
Energy and water supply	1,951	634	2,585
Other	9,558	1,060	10,618
Total	**172,049**	**39,958**	**212,007**

*) At the end of 2008 the structure of industries has been changed according to OENACE-Codes. Therefore the terms of industries had to be changed and the assignment of credit exposures to industries changed in some cases significantly. The comparative figures for 2007 are not available in the new structure.

The total credit exposure of Erste Group at 31 December 2008 was up by 1.7% or EUR 3.7 billion from one year earlier, to EUR 215.7 billion.

This net movement in credit exposure reflected increases at the CEE banking subsidiaries (up by EUR 5.9 billion), at the Austrian savings banks (up EUR 4.6 billion) and at Immorent and s Bausparkasse (up by a combined EUR 1.3 billion). On the other hand, the assets of s Versicherung – which was sold in the year under review – were no longer included (EUR (3.7) billion), the financial investments at holding company level were reduced by EUR 4.2 billion and the rest of the group recorded a slight decrease on balance.

The classification of credit assets into the risk classes used here is based on Erste Group's internal customer ratings. Erste Group uses internally two risk-scales for risk classification: for not defaulted customers eight risk classes (for retail) and 13 risk classes (for all other segments). For defaulted customers one risk class is used. For new subsidiaries, the respective local risk classification is mapped to group standard classifications until internal rating systems are introduced. Credit exposure is divided into the following risk classes.

Low risk: The borrower demonstrates a strong repayment capacity. New business is generally with clients in this risk class.

Management attention: The borrower's financial situation is in effect good, but his repayment ability may be negatively affected by unfavourable economic conditions. New business with clients in this risk class requires adequate structuring (securing) of the credit risks.

Substandard: The borrower is vulnerable to negative financial and economic impacts; such loans are managed in specialised risk management departments.

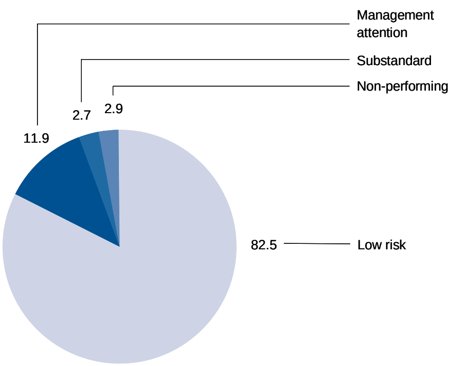
Non-performing: One or more of the default criteria under Basel II are met: full repayment unlikely, interest or principal payments on a material exposure more than 90 days past due, restructuring resulting in a loss to the lender, realisation of a loan loss, or opening of bankruptcy proceedings.

Credit Risk Review

Overall trend

A decrease occurred in the share represented by the best risk class (low risk), while exposure increased in the other categories; especially the assets in the substandard and non-performing portfolios rose strongly. Non-performing assets as a share of total exposure (i.e., the so-called NPL ratio) showed a marked increase from 2.2% to 2.9%.

Credit exposure by risk class 2008 in %



Of Erste Group's total credit exposure, 82.5% constituted the best risk class and 11.9% was in the management attention class; the combined proportion of the two poorer risk classes rose from 4.2% to 5.6%.

Trend in Austria and abroad

In this section, credit exposure is analysed by the risk country of the borrower; the distribution among Erste Group entities is discernable from the composition of credit risk by reporting segments, shown in a subsequent section.

Credit exposure by risk class: Total

in EUR million	Low risk	Management attention	Substandard	Non-performing	Exposure
Total exposure at 31 Dec 2008	177,762	25,692	5,869	6,345	215,668
Share of total exposure	82.5%	11.9%	2.7%	2.9%	100.0%
Risk provisions at 31 Dec 2008	135	178	325	3,273	3,911
Covered by risk provisions	0.1%	0.7%	5.5%	51.6%	1.8%
Total exposure at 31 Dec 2007	179,643	23,496	4,105	4,763	212,007
Share of total exposure	84.7%	11.1%	2.0%	2.2%	100.0%
Risk provisions at 31 Dec 2007	72	152	466	2,671	3,362
Covered by risk provisions	0.0%	0.6%	11.4%	56.1%	1.6%
Change in total exposure in 2008	(1,881)	2,196	1,763	1,582	3,661
Change	(1.0)%	9.3%	43.0%	33.2%	1.7%
Change in risk provisions in 2008	63	27	(142)	602	550
Change	86.9%	17.5%	(30.4)%	22.5%	16.3%

Credit exposure by risk class: Austria

in EUR million	Low risk	Management attention	Substandard	Non-performing	Exposure
Total exposure at 31 Dec 2008	70,374	8,816	2,277	3,667	85,135
Share of total exposure	82.7%	10.4%	2.7%	4.3%	100.0%
Risk provisions at 31 Dec 2008	22	46	170	1,823	2,061
Covered by risk provisions	0.0%	0.5%	7.4%	49.7%	2.4%
Total exposure at 31 Dec 2007	66,900	10,216	1,714	3,361	82,191
Share of total exposure	81.4%	12.4%	2.1%	4.1%	100.0%
Risk provisions at 31 Dec 2007	10	46	71	1,806	1,933
Covered by risk provisions	0.0%	0.5%	4.1%	53.7%	2.4%
Change in total exposure in 2008	3,475	(1,400)	564	306	2,944
Change	5.2%	(13.7)%	32.9%	9.1%	3.6%
Change in risk provisions in 2008	13	0	99	17	128
Change	129.2%	0.6%	139.3%	0.9%	6.6%

In Austria, total credit exposure grew by EUR 2.9 billion or 3.6% compared to the end of the prior year, driven mainly by the growth in retail lending to consumers.

While the low risk category expanded by EUR 3.5 billion or 5.2% and the management attention portfolio decreased by EUR 1.4 billion or 13.7%, substandard assets increased by EUR 0.6 billion or 32.9% and non-performing assets rose by EUR 0.3 billion or 9.1%.

Credit exposure by risk class: Outside Austria

in EUR million	Low risk	Management attention	Substandard	Non-performing	Exposure
Total exposure at 31 Dec 2008	107,388	16,876	3,591	2,678	130,533
Share of total exposure	82.3%	12.9%	2.8%	2.1%	100.0%
Risk provisions at 31 Dec 2008	113	132	155	1,450	1,850
Covered by risk provisions	0.1%	0.8%	4.3%	54.1%	1.4%
Total exposure at 31 Dec 2007	112,744	13,279	2,391	1,401	129,816
Share of total exposure	86.8%	10.2%	1.8%	1.1%	100.0%
Risk provisions at 31 Dec 2007	63	105	395	865	1,428
Covered by risk provisions	0.1%	0.8%	16.5%	61.7%	1.1%
Change in total exposure in 2008	(5,355)	3,596	1,200	1,277	718
Change	(4.8)%	27.1%	50.2%	91.1%	0.6%
Change in risk provisions in 2008	50	26	(240)	585	422
Change	80.3%	24.9%	(60.8)%	67.6%	29.5%

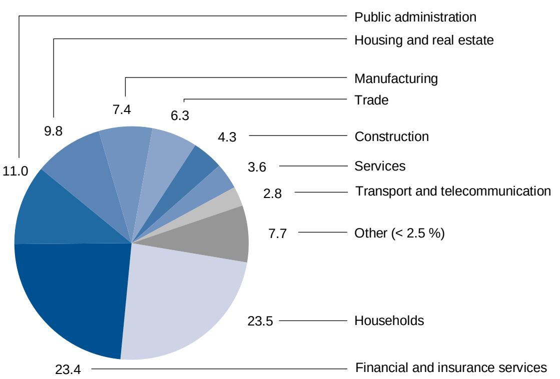
The amount of credit exposure outside Austria increased moderately by EUR 0.7 billion or 0.6%. However, in a significant compositional change, low-risk assets contracted by almost EUR 5.4 billion (or (4.8%)) while management attention exposure rose by EUR 3.6 billion (or 27%), substandard loans by EUR 1.2 billion (or 50%) and non-performing assets by EUR 1.3 billion (or 91%). This reflected both the financial crisis with large defaults such as Iceland, and the deterioration of the fundamental environment in the core markets in CEE.

Credit risk by sector

When comparing the sector composition of credit risk with the prior year, it is important to take into account a change in the structure of sector attribution based on the new OENACE classifications: Despite the reassignment of holding companies from real estate and corporate related services to financial and insurance services, this sector represents the second largest risk volume followed by private households. These sectors are followed by public administration and housing and real estate. The four largest sectors together accounted for more than two-thirds of total credit exposure, compared with almost three-quarters of the total one year earlier. The next highest exposures were found in the manufacturing and trade sectors.

With the exception of construction and, for the first time, of the service, transportation and communication sectors, the shares of the other industries were less than 2.5%. Compared to the previous years, this represents an increase in diversification across sectors.

Credit exposure by sector 2008 in %



Credit exposure by sector: Total in 2008

2008 in EUR million	Gross Exposure Low risk	Management attention	Sub-standard	Non-per-forming	Exposure
Agriculture and forestry	1,139	588	156	138	2,021
Mining	735	66	21	11	834
Manufacturing	10,908	3,501	773	697	15,879
Energy and water supply	2,779	509	99	74	3,461
Construction	6,682	1,861	460	362	9,364
Development of building projects	2,023	415	226	31	2,694
Trade	9,190	3,313	448	694	13,646
Transport and communication	4,239	1,262	349	252	6,102
Hotels and restaurants	2,495	1,278	270	469	4,512
Financial and insurance services	48,306	1,775	105	364	50,551
Holding companies	5,938	296	40	130	6,405
Real estate and housing	16,059	3,995	410	590	21,054
Services	6,055	1,192	174	425	7,846
Public administration	23,015	776	20	13	23,824
Education, health and art	2,423	566	270	132	3,392
Private households	42,394	4,978	1,279	2,120	50,771
Other	1,342	32	1,033	4	2,412
Total	**177,762**	**25,692**	**5,869**	**6,345**	**215,668**

Credit exposure by sector: Total in 2007*)

2007 in EUR million	Gross Exposure Low risk	Management attention	Sub-standard	Non-per-forming	Exposure
Agriculture and forestry	1,094	631	182	127	2,033
Mining	764	214	28	11	1,016
Manufacturing	11,787	2,747	524	510	15,568
Energy and water supply	2,214	242	67	62	2,585
Construction	4,569	1,331	225	339	6,464
Trade	8,896	3,334	515	561	13,306
Tourism	2,040	1,158	258	443	3,900
Transport and communication	3,102	894	236	189	4,422
Banking and insurance	53,876	1,137	155	40	55,208
Real estate and other business activities	23,827	4,898	431	728	29,883
Public administration	25,005	495	17	14	25,531
Healthcare and social services	1,146	252	38	73	1,509
Other services	2,129	570	110	149	2,957
Private households	36,913	5,439	685	1,485	44,522
Other	2,281	152	634	33	3,101
Total	**179,643**	**23,496**	**4,105**	**4,763**	**212,007**

*) At the end of 2008 the structure of industries has been changed according to OENACE-Codes. Therefore the terms of industries had to be changed and the assignment of credit exposures to industries changed in some cases significantly. The comparative figures for 2007 are not available in the new structure.

Credit exposure by sector: Austria in 2008

2008 in EUR million	Gross Exposure Low risk	Management attention	Sub-standard	Non-per-forming	Exposure
Agriculture and forestry	530	164	27	79	801
Mining	56	26	0	8	90
Manufacturing	4,954	593	119	280	5,946
Energy and water supply	890	171	8	32	1,101
Construction	3,719	627	71	266	4,683
Development of building projects	998	124	3	22	1,148
Trade	4,663	1,064	127	475	6,329
Transport and communication	1,765	318	117	160	2,360
Hotels and restaurants	1,303	911	169	391	2,773
Financial and insurance services	13,363	246	47	78	13,734
Holding companies	4,216	104	39	57	4,416
Real estate and housing	9,532	1,849	163	444	11,988
Services	2,896	629	90	340	3,955
Public administration	4,853	67	0	0	4,920
Education, health and art	1,269	264	32	94	1,658
Private households	19,916	1,884	279	1,022	23,101
Other	665	2	1,028	0	1,695
Total	**70,374**	**8,816**	**2,277**	**3,667**	**85,135**

Credit exposure by sector: Austria in 2007*)

2007 in EUR million	Gross Exposure Low risk	Management attention	Sub-standard	Non-per-forming	Exposure
Agriculture and forestry	524	283	50	96	952
Mining	110	54	4	8	176
Manufacturing	5,264	873	76	265	6,478
Energy and water supply	689	100	8	29	826
Construction	3,037	646	131	277	4,091
Trade	4,343	1,433	180	423	6,378
Tourism	967	905	168	363	2,402
Transport and communication	1,342	314	119	121	1,897
Banking and insurance	10,242	107	6	16	10,372
Real estate and other business activities	14,182	2,930	233	643	17,988
Public administration	5,829	22	3	12	5,865
Healthcare and social services	897	194	27	50	1,169
Other services	900	421	47	125	1,494
Private households	18,544	1,922	194	934	21,594
Other	29	11	469	1	510
Total	**66,900**	**10,216**	**1,714**	**3,361**	**82,191**

*) At the end of 2008 the structure of industries has been changed according to OENACE-Codes. Therefore the terms of industries had to be changed and the assignment of credit exposures to industries changed in some cases significantly. The comparative figures for 2007 are not available in the new structure.

Credit exposure by sector: Outside Austria in 2008

2008 in EUR million	Gross Exposure Low risk	Management attention	Sub-standard	Non-per-forming	Exposure
Agriculture and forestry	610	423	129	58	1,220
Mining	679	40	21	4	744
Manufacturing	5,954	2,907	654	417	9,932
Energy and water supply	1,889	338	91	43	2,360
Construction	2,963	1,234	388	96	4,681
Development of building projects	1,025	290	222	9	1,547
Trade	4,527	2,249	321	220	7,316
Transport and communication	2,474	944	232	93	3,743
Hotels and restaurants	1,193	366	102	78	1,738
Financial and insurance services	34,943	1,529	58	286	36,816
Holding companies	1,723	192	0	73	1,989
Real estate and housing	6,527	2,145	247	146	9,066
Services	3,158	564	85	85	3,892
Public administration	18,162	709	20	13	18,904
Education, health and art	1,154	303	239	39	1,734
Private households	22,477	3,094	1,001	1,098	27,670
Other	677	30	5	4	716
Total	**107,388**	**16,876**	**3,591**	**2,678**	**130,533**

Credit exposure by sector: Outside Austria in 2007*)

2007 in EUR million	Gross Exposure Low risk	Management attention	Sub-standard	Non-per-forming	Exposure
Agriculture and forestry	570	348	132	31	1,081
Mining	653	160	24	3	841
Manufacturing	6,523	1,874	448	245	9,091
Energy and water supply	1,525	142	59	33	1,759
Construction	1,532	685	94	63	2,373
Trade	4,553	1,902	335	138	6,928
Tourism	1,074	253	91	80	1,498
Transport and communication	1,760	580	118	68	2,525
Banking and insurance	43,634	1,030	149	24	44,837
Real estate and other business activities	9,645	1,967	198	85	11,895
Public administration	19,176	473	14	3	19,666
Healthcare and social services	249	58	11	22	340
Other services	1,228	149	62	25	1,464
Private households	18,369	3,517	492	550	22,929
Other	2,252	141	165	32	2,590
Total	**112,744**	**13,279**	**2,391**	**1,401**	**129,816**

*) At the end of 2008 the structure of industries has been changed according to OENACE-Codes. Therefore the terms of industries had to be changed and the assignment of credit exposures to industries changed in some cases significantly. The comparative figures for 2007 are not available in the new structure.

The total increase of EUR 2.9 billion in Austria was driven primarily by growth in lending to households.

Outside Austria, credit exposure was steady, as a strong decrease within financial and insurance service providers contrasted with increases in nearly all other sectors.

The foreign portion of credit exposure eased in 2008 from 61.2% to 60.5%.

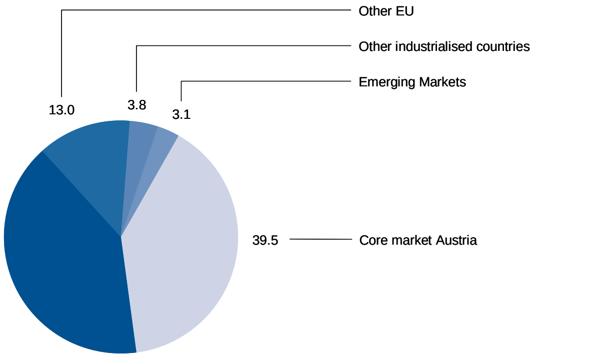
Credit Exposure by region

The increase in credit exposure by a total of just under EUR 3.7 billion reflected a rise of EUR 2.9 billion or 3.6% in Austria and of EUR 11.7 billion or 15.4% in the Central and Eastern European core markets, coupled with a decrease of EUR 9.3 billion or 25.0% in the other EU member states (EU 27 excluding core markets), a decrease in other industrialised countries of EUR 2.3 billion (or (22.3%)) and an increase of EUR 0.7 billion (or 11.0%) in the emerging markets.

The exposure increase in Central and Eastern Europe resulted from an expansion both in business of the local banking subsidiaries and in cross border business. In the other EU countries and other industrialised markets there were reductions in investments primarily in the financial markets and interbank business.

The geographic analysis of credit exposure is based on the risk country of the borrower; the distribution among Erste Group entities is discernable from the composition of credit risk in terms of reporting segments.

Credit exposure by region 2008 in %



The countries of Erste Group's core market and the European Union accounted for 93.1% of credit exposure.

Credit exposure in emerging markets remained of minor significance at 3.1% of the group total.

Credit exposure by region

2008 in EUR million	Gross Exposure Low risk	 Management attention	 Sub-standard	 Non-performing	 Exposure
Core market	**138,299**	**23,354**	**5,418**	**5,719**	**172,789**
Austria	70,374	8,816	2,277	3,667	85,135
Croatia	6,239	1,742	189	187	8,358
Romania	9,347	5,089	1,718	532	16,686
Serbia	419	556	27	45	1,046
Slovakia	11,325	1,081	259	281	12,946
Slovenia	1,916	286	96	81	2,379
Czech Republic	27,354	3,689	542	610	32,195
Ukraine	527	523	56	12	1,119
Hungary	10,798	1,571	253	303	12,925
Other EU	**26,253**	**1,287**	**72**	**343**	**27,956**
Other industrialised countries	**7,216**	**385**	**328**	**240**	**8,170**
Emerging markets	**5,993**	**666**	**51**	**44**	**6,753**
Southeastern Europe / CIS	1,807	212	10	17	2,046
Asia	1,554	122	40	3	1,719
Latin America	837	81	0	15	933
Middle East / Africa	1,796	251	0	9	2,056
Total	**177,762**	**25,692**	**5,869**	**6,345**	**215,668**

2007 in EUR million	Gross Exposure Low risk	Management attention	Sub-standard	Non-per-forming	Exposure
Core market	**128,152**	**21,636**	**3,868**	**4,487**	**158,143**
Austria	66,900	10,216	1,714	3,361	82,191
Croatia	5,630	1,417	155	153	7,355
Romania	7,471	6,387	1,204	309	15,372
Serbia	495	153	8	32	688
Slovakia	8,429	1,243	223	201	10,097
Slovenia	1,805	250	89	69	2,213
Czech Republic	28,155	574	112	198	29,038
Ukraine	387	270	46	5	708
Hungary	8,880	1,126	318	158	10,481
Other EU	**35,918**	**1,084**	**69**	**190**	**37,261**
Other industrialised countries	**10,214**	**240**	**25**	**41**	**10,519**
Emerging markets	**5,359**	**536**	**144**	**44**	**6,083**
Southeastern Europe / CIS	1,272	174	86	2	1,534
Asia	1,482	60	35	34	1,611
Latin America	868	34	12	5	919
Middle East / Africa	1,738	267	11	3	2,019
Total	**179,643**	**23,496**	**4,105**	**4,763**	**212,007**

Credit exposure by BASEL II exposure class

2008 in EUR million	Gross Exposure	Collaterals and other credit risk mitigation Guaran-tees	Real estate	Others
Central governments and central banks	23,949	74	0	123
Regional governments and local authorities	5,699	55	96	945
Administrative bodies and non-commercial undertakings	1,081	227	0	7
Multilateral development banks	195	0	0	0
Institutions	27,624	107	6	257
Corporates	87,775	3,003	13,806	14,483
Retail (incl. SME)	65,521	377	30,538	8,645
Securitisation positions	1,701	0	0	0
Covered Bonds	2,122	0	0	7
Total	**215,668**	**3,843**	**44,446**	**24,468**

2007 in EUR million	Gross Exposure	Collaterals and other credit risk mitigation Guaran-tees	Real estate	Others
Central governments and central banks	20,559	110	0	157
Regional governments and local authorities	6,453	214	21	915
Administrative bodies and non-commercial undertakings	1,037	206	6	27
Multilateral development banks	119	0	0	0
Institutions	36,857	188	26	638
Corporates	84,462	2,388	15,997	6,643
Retail (incl. SME)	58,359	198	24,321	6,098
Securitisation positions	2,145	0	0	0
Covered Bonds	2,017	0	0	0
Total	**212,007**	**3,304**	**40,371**	**14,478**

The credit assets are grouped into exposure classes according to Basel II, using the more detailed classification of the Standardised Approach.

The major types of collaterals are mortgages on residential and commercial real estate, as well as guarantees. Among the other types of collaterals, financial collateral is the most common. The valuation of security takes into account the requirements for risk mitigation under Basel II.

Performing assets (i.e. assets that were neither past due nor impaired) based on the Basel II exposure classes were distributed across risk classes as follows:

2008 in EUR million	Gross Exposure Low risk	Management attention	Sub-standard
Central governments and central banks	23,725	210	5
Regional governments and local authorities	5,150	533	15
Administrative bodies and non-commercial undertakings	1,018	62	1
Multilateral development banks	195	0	0
Institutions	26,835	628	9
Corporates	65,730	15,559	3,774
Retail (incl. SME)	51,351	8,700	2,001
Securitisation positions	1,692	0	9
Covered Bonds	2,067	0	55
Total	**177,762**	**25,692**	**5,869**

2007 in EUR million	Gross Exposure Low risk	Management attention	Sub-standard
Central governments and central banks	20,282	268	9
Regional governments and local authorities	6,329	118	5
Administrative bodies and non-commercial undertakings	918	119	0
Multilateral development banks	119	0	0
Institutions	36,109	597	127
Corporates	66,346	13,402	2,683
Retail (incl. SME)	45,382	8,925	1,269
Securitisation positions	2,069	63	13
Covered Bonds	2,013	3	0
Total	**179,567**	**23,496**	**4,105**

The carrying amount of assets for which new terms were negotiated because they would otherwise have fallen into arrears or been impaired was EUR 1,013 million at 31 December 2008 (2007: EUR 168 million). Of this total, EUR 380 million (2007: EUR 74 million) related to the Corporate exposure class and EUR 633 million (2007: EUR 94 million) pertained to the Retail category (including SME). These are assets in the non-performing risk class where the renegotiation of terms caused a financial loss to the lending bank on a present value basis. At Erste Group this is used as a default criterion.

At 31 December 2008 the balances of assets which were past due but for which specific provisions had not yet been established were as follows:

2008 in EUR million	Gross Exposure: Thereof 91-180 days past due	Gross Exposure: Thereof more than 180 days past due	Gross Exposure: Total loans and advances past due	Thereof collateralised: Thereof 91-180 days past due	Thereof collateralised: Thereof more than 180 days past due	Thereof collateralised: Total loans and advances past due
Regional governments and local authorities	1	3	4	0	0	0
Institutions	3	0	3	0	0	0
Corporates	65	159	224	22	104	126
Retail (incl. SME)	84	373	457	42	128	170
Total	**153**	**536**	**688**	**64**	**232**	**297**

At 31 December 2007 the balances of assets which were past due but for which specific provisions had not yet been established were as follows:

2007 in EUR million	Gross Exposure: Thereof 91-180 days past due	Gross Exposure: Thereof more than 180 days past due	Gross Exposure: Total loans and advances past due	Thereof collateralised: Thereof 91-180 days past due	Thereof collateralised: Thereof more than 180 days past due	Thereof collateralised: Total loans and advances past due
Regional governments and local authorities	1	2	3	0	0	0
Institutions	0	4	4	0	0	0
Corporates	48	77	125	19	32	51
Retail (incl. SME)	92	493	585	42	143	185
Total	**141**	**577**	**717**	**61**	**175**	**236**

All assets presented in this table were classified as non-performing. Provisions are as a rule established for assets that are more than 90 days past due. However, such specific provisions are not established if the asset is covered by portfolio provisions or by collateral.

At 31 December 2008, specific provisions existed for the following exposures:

2008 in EUR million	Total loans under specific provisions	Thereof 91-180 days past due	Thereof more than 180 days past due
Loans and advances to credit institutions	130	2	4
Loans and advances to customers	4,749	265	1,596
Total	**4,879**	**267**	**1,600**

2007 in EUR million	Total loans under specific provisions	Thereof 91-180 days past due	Thereof more than 180 days past due
Loans and advances to credit institutions	10	0	4
Loans and advances to customers	3,759	174	1,390
Total	**3,769**	**174**	**1,394**

Provisions for impairment are established based on a standardised process whereby risk provisions are created for that portion of the exposure not covered by collateral or expected recoveries. In addition, portfolio provisions are made on the basis of default probabilities and loss ratios for non-provisioned exposures

Credit exposure by segments

This section describes the composition of credit exposure based on reporting segments. Exposure is classified to segments based on the domicile of the group entities that carry the credit risk on their books. The differences in provisioning levels for the segments result from the risk situation in the respective markets, regulatory requirements and the local legal environment.

Credit exposure by segment at 31 December 2008

in EUR million	Low risk	Management attention	Substandard	Non-performing	Exposure	Risk provisions	NPL coverage
Austria	67,181	9,618	1,418	3,874	82,091	2,063	53.3%
Central and Eastern Europe	51,426	10,313	2,823	1,791	66,353	1,451	81.0%
Private clients and SME	118,606	19,931	4,242	5,665	148,444	3,514	62.0%
Group Corporate and Investment Banking	39,554	5,377	681	638	46,250	395	61.9%
Group Markets	15,277	240	353	42	15,912	1	3.3%
Corporate Center	4,325	145	593	0	5,063	1	157.3%
Total	**177,762**	**25,692**	**5,869**	**6,345**	**215,668**	**3,911**	**61.6%**

Credit exposure by segment at 31 December 2007*)

in EUR million	Low risk	Management attention	Substandard	Non-performing	Exposure	Risk provisions	NPL coverage
Austria	60,574	9,759	1,518	3,287	75,138	1,797	54.7%
Central and Eastern Europe	57,912	10,148	2,018	953	71,032	1,271	133.4%
Private clients and SME	118,487	19,907	3,536	4,239	146,170	3,068	72.4%
Group Corporate and Investment Banking	43,065	2,375	559	503	46,503	276	54.8%
Group Markets	16,468	1,141	0	1	17,610	1	63.4%
Corporate Center	1,623	72	9	20	1,724	18	88.7%
Total	**179,643**	**23,496**	**4,105**	**4,763**	**212,007**	**3,362**	**70.6%**

*) In the third quarter of 2008 the segmentation was revised to the new structure used here. The comparative data as at the end of 2007 was restated accordingly where possible. However, the Central and Eastern European business of Group Corporate & Investment Banking for 2007 is still included in the CEE segment.

Non-performing assets and risk provisions

Credit assets are classified and reported as non-performing (NPL) if one or more of the default criteria under Basel II are met: full repayment unlikely, interest or principal payments on a material exposure more than 90 days past due, restructuring resulting in a loss to the lender, realisation of a loan loss, or opening of bankruptcy proceedings. These advances are classified and reported under non-performing assets.

On average in the group, risk provisions covered 61.6% of reported NPL assets. For the portion of NPL not covered by provisions there are appropriate levels of conservatively valued, bankable collateral, hence this level of provisioning is considered sufficient. In accordance with the Basel II definition of default, the NPL category also includes debt on which interest and principal payments are being made.

In 2008, NPL increased by EUR 1,582 million or 33.2% to EUR 6,345 million. Risk provisions were increased by EUR 550 million or 16.3% to EUR 3,911 million. These movements resulted in a net reduction of 9.0 percentage points in NPL provision coverage.

ABS- and CDO-Portfolio

Overview

Erste Group is not invested in US subprime securities or their derivatives.

At 31 December 2008, Erste Group had a conservative portfolio of securitised assets and their derivatives with a total value of approximately EUR 2.3 billion. More than 95% of this portfolio carried an investment grade rating.

A large proportion of the portfolio – about 66% – is invested in residential mortgage-backed securities (RMBS) and collateralised loan obligations (CLO).

_ Prime British residential mortgage-backed securities (RMBS): Erste Group is invested solely in prime RMBS. These are portfolios of residential mortgage loans, which as a rule have satisfactory ratings. One of the key indicators for the evaluation of the portfolio is the 30+ day delinquency rate, which is currently 1.4% on average. The losses in the underlying portfolios have currently still been so small that there were no losses to record on our tranches (BBB to AAA).

_ European and US collateralised loan obligations (CLO): These products consist primarily of secured corporate loans with an average rating of B+. Although the default rate for speculative grade corporate debt securities rose strongly in 2008, the subordination should provide sufficient protection against the increase in defaults. More than 96% of our CLO portfolios carry a rating of A or better.

The other 34% of the portfolio is invested in the following asset classes:

_ UK commercial mortgage-backed securities (CMBS): The portfolio comprises loans with commercial property collateral (mostly offices but also retail, leisure and other). Despite the decrease of about 35% in British commercial real estate prices, the CMBS are sufficiently protected by the long seasoning, by low loan-to-value ratios, and by structural support through subordination.

_ Investments in continental Europe: Securitisations from the Netherlands and Germany with the following underlying assets: residential and commercial mortgages, loans to small and medium enterprises, and leases; Italian RMBS and lease ABS; Spanish securitisations mainly of SME loans, and a lower percentage of RMBS; and smaller positions in Irish, Central and Eastern European and Australian transactions.

_ Collateralised loan obligations make up the bulk of the collateralised debt obligations (CDO) held. In addition to US CLOs, the CDO portfolio also contains investment grade tranches of European CLOs. Other CDO products were largely avoided over the last several years. While there are small positions in synthetic CDOs, collateralised bond obligations, and CDOs of CDOs, no new investments have been made in these types of instruments since the middle of 2006. The remaining securitisation products were purchased relatively long ago, will soon mature, and do not represent additional risk of loss of principal even in the current market setting. This also applies to some other CDOs with mixed portfolios that cannot be assigned to the product categories discussed above.

Investment process and portfolio allocation

The general screening criterion for purchasing securitised products or their derivatives has always been to avoid product categories that lack historical default data and loss data over a full economic cycle. Additionally, all ABS and CDO investments were centrally analysed and approved. All securities are as a rule held until maturity; earlier disposal is the exception. Approximately 42% of the assets are classified to the held to maturity (HTM) portfolio, 46% to the available for sale (AFS) portfolio and 12% to the fair value (FV) portfolio. In the present market environment, all securities have a market price lower than cost. Nevertheless, based on careful and continual analysis, there are no particular risk concerns. The securities of the ABS and CDO portfolios involve standard structures and frequently are benchmark securitisations.

Liquidity in the entire market fell further during the year under review. No new investments have been made for some time. We expect the portfolio to contract further in 2009 as a result of repayments.

In addition, Erste Group is also invested in US collateralised mortgage obligations (CMOs) issued by Ginnie Mae, Fannie Mae and Freddie Mac. These issuers are considered US government-sponsored or US government-guaranteed institutions and they have stable AAA ratings.

Iceland

At 31 December 2008 Erste Group had a total exposure to Icelandic banks of EUR 323.4 million. This was almost entirely provided for by establishing provisions of EUR 287.6 million. The amount of these provisions is regarded as sufficient to cover future defaults.

The following table presents the composition of the exposure and provisioning by portfolio:

in EUR million	Exposure	Impairment
Loans and advances to credit institutions	94.5	(66.1)
Financial assets - at fair value through profit or loss	3.8	(3.7)
Financial assets - available for sale	167.6	(164.0)
Financial assets - held to maturity	57.5	(53.8)
Total	**323.4**	**(287.6)**

Liquidity risk

During the last year liquidity risk management was one of the most important priorities for Erste Group - not only a tactical short-term liquidity risk, but the whole process of liquidity management e.g. long-term structural liquidity risk, planning of funding needs across the group, crisis scenario-based analysis, contingency plans, collateral mobilization, communication, etc.

Organization and reporting

As in previous years, the liquidity risk was discussed at the Board level at Asset Liability Committee (ALCO) meetings. Additionally there were special daily and weekly reports prepared for the Board. ALCO was regularly informed about the fulfilment of all liquidity limits and was fully updated about the internal and external market liquidity situation. The operational liquidity committee (OLC) – responsible for management of liquidity was meeting more frequently in order to improve the coordination of the operational tasks related to liquidity management and to regularly report to ALCO members. National banks and Board members were watching the liquidity situation and liquidity risk more carefully. National Banks imposed new reporting requirements and liquidity limits, which were applied within EU memberstates and which were met.

Short-term Liquidity Risk

The maturity profile of short-term funding in foreign currencies, especially CHF and USD has been monitored on a detailed basis to keep with short-term liquidity limits. The short-term liquidity position is monitored on a daily basis. Erste Group is particularly focusing on the net cash outflow projection and its coverage by collateral. The OLC put a special focus on a collateral mobilization, which helped to keep a better split of eligible collateral in the group. A ratio between secured and unsecured funding clearly shows the current market trend to move towards collateralized funding.

Long-term Liquidity Risk

Erste Group steers long-term (structural) liquidity risk via a scenario and time dependent analysis tool, both at the Group and the individual subsidiary level. Dynamic aspects of the renewal of existing balance sheet items are incorporated through the setting of specific assumptions. The result of the analysis shows the ability of the Group to withstand distress situations before they really occur. Acting upon the results of this analysis, all necessary steps can be taken in order to be prepared to face the potential crisis in advance.

Own Issues

The year 2008 was for the financial markets one of the most volatile and dramatic seen in recent history. Credit spread widening continued and debt capital market issuances were dampened. Erste Group did not tap the international market with benchmark transactions and decided to concentrate on retail and private placements in Austria and to international clients. This strategy was not only successful in achieving our yearly funding plan at very attractive levels, but also demonstrated that Erste Group has an excellent reputation and has good possibilities to place long term debt.

Group-wide Liquidity Risk Management

General standards of liquidity management (standards, limits and analysis) have been defined by Erste Group Bank AG. Members of the group implemented these principles. Results of the analyses are reported regularly and consolidated on the Group level. The important channel for steering the liquidity risk within Erste Group Bank AG and towards its subsidiaries is the FTP system and prices of Intra-group funding. The process of planning of funding needs provides important information for liquidity management. A detailed overview is prepared about funding needs for the planning horizon across the Group regularly, on quarterly basis.

Contingency plan

The Comprehensive Contingency Plan assures the necessary coordination of all involved parties in the liquidity management process in case of crisis. The contingency plans of the subsidiaries are coordinated by the plan of the parent company.

Liquidity gap

The long-term liquidity position is managed using liquidity gaps, on the basis of expected cash flows. This liquidity position is calculated for each currency with material volume and based on the assumption of ordinary business activity.

The following table shows liquidity gaps as of 31 December 2008:

in EUR million	< 1 month		1-12 months		1-5 years		> 5 years	
	2008	2007	2008	2007	2008	2007	2008	2007
Liquidity gap	**(12,007)**	**(3,049)**	**(25,193)**	**352**	**11,202**	**(1,309)**	**60,999**	**4,006**

Analysis of financial liabilities

Maturities of contractual, not discounted cash flows of financial liabilities were as follows:

2008 in EUR million	< 1 month	1-12 months	1-5 years	> 5 years
Liabilities	**102,528**	**54,073**	**38,427**	**20,534**

Interest rate risk

Interest rate risk is the risk of adverse change in the fair value of financial instruments caused by movement in market interest rates. This type of risk arises when mismatches exist between assets and liabilities (including off-balance-sheet items) in respect of their maturities or of the timing of interest rate adjustments.

In order to identify interest rate risk, all financial instruments, including transactions not recognised in the balance sheet, are grouped into maturity bands based on their remaining term to maturity or term to an interest rate adjustment.

The following tables list the open fixed-income positions held by the group in the five currencies that carry significant interest rate risk: EUR, CZK, SKK, HUF and RON.

Only those open fixed-income positions are shown which are not allocated to the trading book. Positive values indicate fixed-income risks on the asset side, i.e. a surplus of asset items; negative values represent a surplus on the liability side.

Open fixed-income positions not assigned to the trading book

2008 in EUR million	1-3 years	3-5 years	5-7 years	7-10 years	over 10 years
Fixed-interest gap in EUR positions at 31 December 2008	3,170.5	1,923.0	886.8	598.4	55.4
Fixed-interest gap in CZK positions at 31 December 2008	(1,964.1)	(13.5)	686.3	439.3	620.6
Fixed-interest gap in SKK positions at 31 December 2008	(392.1)	853.8	97.4	86.6	179.4
Fixed-interest gap in HUF positions at 31 December 2008	273.4	444.7	236.8	82.8	0.0
Fixed-interest gap in RON positions at 31 December 2008	(55.4)	212.4	42.5	170.7	5.3

2007 in EUR million	1-3 years	3-5 years	5-7 years	7-10 years	over 10 years
Fixed-interest gap in EUR positions at 31 December 2007	310.8	2,448.1	1,296.0	1,004.3	349.6
Fixed-interest gap in CZK positions at 31 December 2007	(1,596.2)	165.6	871.8	412.2	346.6
Fixed-interest gap in SKK positions at 31 December 2007	(376.1)	333.2	307.4	47.7	130.7
Fixed-interest gap in HUF positions at 31 December 2007	392.7	35.3	1.1	0.5	0.0
Fixed-interest gap in RON positions at 31 December 2007	(19.8)	(250.8)	15.0	41.0	6.4

Hedging

The goals of market risk management for the banking books of Erste Group are to optimise the risk position while taking into account the economic environment, competitive situation, fair value risk and effect on net interest income; to maintain an appropriate liquidity position for the Group; and to centrally manage all market risks inherent in the banking book via the Group's asset liability committee.

In keeping with the goals of risk management, hedging activities focus on the two main control variables – net interest income and fair value risk. In a broader sense under hedging an economic activity is understood, that mitigates risk, but not necessarily qualify for IFRS hedge accounting. In a more narrow sense hedging is hedge accounting according to all IFRS requirements. For economic fair value hedging fair value option is used where it is applicable. For IFRS hedge accounting cash flow hedges, fair value hedges and hedges of a net investment are recognised. Most of the hedges are hedging interest rate risk; the rest is used to hedge foreign exchange rate risk.

Fair value hedges are employed to reduce market risk. They are used to turn fixed-income or structured transactions into variable-income transactions. Erste Group policy is that all substantial fixed single transactions which are bearing interest rate risk are converted to variable transactions in order not to retain the interest rate risk with them. Only Group Asset and Liability Management is allowed to steer interest rate risk up to a centrally approved level centrally. This policy is applied mainly for fixed or structured issued bonds, but also on material fixed purchased bonds and generally any material fixed transactions in the balance sheet. Steering of interest rate risk is done via bonds, loans or derivatives whereby for derivatives usually IFRS hedge accounting is applied. Interest rate swaps are the main instruments used for fair value hedges. In connection with issuance, fair value is also hedged by means of cross-currency swaps, swaptions, caps, floors and other types of instruments.

in EUR million	2008	2007
Profit/loss fair value - underlying	(577.8)	346.1
Profit/loss in fair value - hedging instrument	573.7	(341.8)

Cash flow hedges are used to eliminate uncertainty in the future cash flows in order to stabilize net interest income. Floors or caps are used to lock levels of interest income in a changing interest rate environment.

Interest rate swaps, caps and floors are used to hedge interest rate risk. Currency risk is hedged with spot transactions as well as currency swaps, fx forwards or balance sheet items denominated in a hedged currency.

In the reporting period, EUR 14 million (2007: EUR 2 million) was removed from the cash flow hedge reserve and recognised as income in the consolidated income statement; EUR 150 million (2007: EUR (12) million) was recognised directly in equity. The majority of the hedged cash flows is likely to occur within the next five years and will then be recognised in the consolidated income statement. Inefficiencies from cash flow hedges amounting to EUR (2.3) million (2007: EUR (0.5) million) are reported in the net trading result.

in EUR million	2008 Positive fair value	2008 Negative fair value	2007 Positive fair value	2007 Negative fair value
Hedging instrument - fair value hedge	200	167	67	611
Hedging instrument - cash flow hedge	96	20	2	47

Fair values of hedging instruments are reported in other assets and in other liabilities respectively.

44) Total volume of unsettled derivatives

2008 in EUR million	Notional amounts total	Positive	Negative	Fair value Total	Fair values by maturity < 1 year	1-5 years	> 5years
Interest rate contracts							
Interest rate swaps							
Purchase	267,094	52,028	(81)	51,947	24,890	9,181	17,876
Sale	265,256	103	(51,800)	(51,697)	(27,302)	(8,251)	(16,144)
FRA's							
Purchase	33,639	27	(74)	(47)	(41)	(6)	0
Sale	26,879	60	(23)	37	29	8	0
Futures							
Purchase	2,167	0	0	0	0	0	0
Sale	465	0	0	0	0	0	0
Interest rate options							
Purchase	76,678	1,821	(4)	1,817	347	625	845
Sale	71,631	5	(2,102)	(2,097)	(366)	(664)	(1,067)
Currency contracts							
Currency swaps							
Purchase	78,257	20,670	(343)	20,327	18,526	886	915
Sale	77,424	19	(19,944)	(19,925)	(17,853)	(1,511)	(561)
Futures							
Purchase	24	3	0	3	3	0	0
Sale	44	1	(2)	(1)	(1)	0	0
Currency options							
Purchase	23,450	3,449	0	3,449	2,281	1,162	6
Sale	23,108	0	(3,417)	(3,417)	(2,331)	(1,081)	(5)
Other agreements							
Credit risk swaps							
Purchase	1,624	178	(6)	172	4	138	30
Sale	0	0	0	0	0	0	0
Forward agreements							
Purchase	392	27	0	27	23	4	0
Sale	376	0	(32)	(32)	(24)	(5)	(3)
Futures							
Purchase	143	0	(1)	(1)	(1)	0	0
Sale	81	2	(1)	1	1	0	0
Options							
Purchase	2,261	69	0	69	25	33	11
Sale	1,410	0	(13)	(13)	(5)	(7)	(1)
Total							
Purchase	**485,729**	**78,272**	**(509)**	**77,763**	**46,057**	**12,023**	**19,683**
Sale	**466,674**	**190**	**(77,334)**	**(77,144)**	**(47,852)**	**(11,511)**	**(17,781)**

2007 in EUR million	Notional amounts total	Positive	Negative	Fair value Total	Fair values by maturity < 1 year	1-5 years	> 5years
Interest rate contracts							
Interest rate swaps							
Purchase	241,300	42,455	(68)	42,387	23,934	5,974	12,479
Sale	234,878	121	(42,861)	(42,740)	(24,058)	(5,540)	(13,143)
FRA's							
Purchase	18,526	20	0	20	18	2	0
Sale	3,583	0	(17)	(17)	(16)	(1)	0
Futures							
Purchase	3,091	7	0	7	7	0	0
Sale	2,605	0	(3)	(3)	(3)	0	0
Interest rate options							
Purchase	65,625	777	(10)	767	80	326	362
Sale	62,554	5	(786)	(781)	(125)	(313)	(342)
Currency contracts							
Currency swaps							
Purchase	51,715	946	(936)	10	(285)	93	203
Sale	51,432	793	(478)	315	370	(86)	32
Futures							
Purchase	158	43	0	43	42	0	0
Sale	175	0	(44)	(44)	(44)	0	0
Currency options							
Purchase	6,520	104	(11)	93	59	32	1
Sale	6,679	11	(128)	(117)	(74)	(41)	(1)
Other agreements							
Credit risk swaps							
Purchase	869	12	(6)	6	12	(5)	0
Sale	0	0	0	0	0	0	0
Forward agreements							
Purchase	253	6	0	6	5	0	0
Sale	269	0	(7)	(7)	(1)	(4)	(2)
Futures							
Purchase	136	1	0	1	1	0	0
Sale	200	0	(4)	(4)	(4)	0	0
Options							
Purchase	1,006	134	0	134	25	108	0
Sale	1,133	4	(149)	(145)	(131)	(17)	3
Total							
Purchase	**389,199**	**44,505**	**(1,031)**	**43,474**	**23,898**	**6,530**	**13,045**
Sale	**363,508**	**934**	**(44,477)**	**(43,543)**	**(24,086)**	**(6,002)**	**(13,453)**

45) Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms-length transaction. The best indication of the fair value of financial instruments is provided by quoted market prices in an active market. Where quoted market prices in an active market are available, they are used to measure the financial instrument. The measurement of fair value at Erste Group is based primarily on external sources of data (stock market prices or broker quotes in highly liquid market segments). Where no market prices are available, fair value is determined on the basis of valuation models that are based on observable market information. In some cases the fair value of financial instruments can be determined neither on the basis of market prices nor of valuation models that rely entirely on observable market data. In this case, individual valuation parameters not observable in the market are estimated on the basis of reasonable assumptions.

Erste Group employs only generally accepted, standard valuation models. Net present values are determined for linear derivatives (e.g. interest rate swaps, cross currency swaps, foreign exchange forwards and forward rate agreements) by discounting the replicating cash flows. Plain vanilla OTC options (on shares, currencies and interest rates) are valued using option pricing models of the Black-Scholes class; complex interest rate derivatives are measured using Hull-White and/or Brace Gatorek Musiela (BGM) models.

Erste Group uses only valuation models which have been tested internally and for which the valuation parameters (such as interest rates, exchange rates and volatility) have been determined independently.

Financial instruments for which fair value is determined on the basis of quoted market prices are mainly listed securities and derivatives as well as liquid government bonds and corporate bonds.

For financial instruments in inactive markets with predominantly observable market data and sufficient market depth, fair values are determined through the use of valuation models or by reference to comparable transactions. This is the case especially for OTC derivatives and bonds of low liquidity.

For financial instruments in inactive markets with predominantly non-observable market information or insufficient market depth, fair value is determined in a comparable manner. For inputs that are not observable or are of limited quality (e.g., in the case of instruments with extended valuation intervals or highly illiquid markets), approximations which fulfill the arm´s length principle are used. This applies in particular to private equity investments, complex derivatives and illiquid structured bonds.

The table below details the valuation methods used to determine the fair value of financial instruments (excl. derivatives in banking book) measured at fair value:

in EUR million	Quoted market prices in active markets	Marked to model based on observable marked data	Marked to model based on non-observable inputs	Total
Financial assets - available for sale	6,325	7,729	1,510	15,564
Financial assets - at fair value through profit or loss	1,137	2,654	267	4,058
Trading assets - securities	1,889	3,051	62	5,002
Trading assets - derivatives	1,806	714	12	2,532
Total assets	**11,157**	**14,148**	**1,851**	**27,156**
Trading liabilities - derivatives	1,790	478	22	2,290
Other trading liabilities	161	69	0	230
Total liabilities and equity	**1,951**	**547**	**22**	**2,520**

The volume of products whose fair values are determined using valuation models based on non-observable market data is driven in large part by the market trend in the structured credit segment (ABS, CDOs). The decrease in trading activity led to a reduction in the proportion of observable transactions and thus to the allocation of more instruments to this category.

The following table shows fair values of financial instruments not measured at fair value:

in EUR million	2008 Fair value	2008 Carrying amount	2007 Fair value	2007 Carrying amount
ASSETS				
Cash and balances with central banks	7,556	7,556	7,615	7,615
Loans and advances to credit institutions	14,345	14,258	14,893	14,922
Loans and advances to customers	123,644	122,488	110,465	110,675
Financial assets - held to maturity	14,064	14,145	16,804	16,843
Investments of insurance companies[1)]	0	0	1,588	1,647
LIABILITIES				
Deposits by banks	34,627	34,672	35,013	35,165
Customer deposits	109,154	109,305	99,768	100,116
Debt securities in issue	30,458	30,484	31,046	31,078
Subordinated liabilities	6,040	6,047	5,593	5,589

1) Investments of insurance companies contain financial assets – held to maturity and loans and advances.

The fair value of loans and advances to customers and credit institutions is estimated by discounting future cash flows including changes in current credit spreads (difference from 2007 fair value). Loans and advances are grouped, as far as possible, into homogeneous portfolios based on maturity and internal rating.

The negative impact from the consideration of credit-risk spreads partly compensate the positive effect of low interest level as of 31 December 2008.

For liabilities without contractual maturities the carrying amount is recorded at fair value. The fair value of the other liabilities is estimated without assumed credit risk, but with changes in interest rates.

The fair values of receivables reflect the legal interest level as of 31 December 2008 and compensate the impact from the consideration of credit-risk spreads.

46) Financial instruments per category according to IAS 39

in EUR million	Loans and receivables	Held to maturity	Trading	Designated at fair value	Available for sale	Financial assets and financial liabilities at amortised cost	Derivatives designated as hedging instruments	Total
	At 31 December 2008							
ASSETS								
Cash and balances with central banks						7,556		7,556
Loans and advances to credit institutions	14,243			101				14,344
Loans and advances to customers	126,185							126,185
Risk provisions for loans and advances	(3,783)							(3,783)
Trading assets			7,534					7,534
Financial assets - at fair value through profit or loss				4,058				4,058
Financial assets - available for sale					16,033			16,033
Financial assets - held to maturity		14,145						14,145
Derivatives in banking book[1]			164				296	460
Accruals[1]						1,893		1,893
Total financial assets	**136,645**	**14,145**	**7,699**	**4,159**	**16,033**	**9,449**	**296**	**188,426**
LIABILITIES								
Deposits by banks						34,672		34,672
Customer deposits				128		109,176		109,305
Debt securities in issue				65		30,419		30,484
Trading liabilities			2,520					2,520
Subordinated liabilities						6,047		6,047
Derivatives in banking book[2]			195				188	382
Accruals[2]						1,942		1,942
Total financial liabilities	**0**	**0**	**2,714**	**193**	**0**	**182,255**	**188**	**185,350**

1) Derivatives and accruals are reported in other assets.
2) Derivatives and accruals are reported in other liabilities.

	At 31 December 2007							
in EUR million	Loans and receivables	Held to maturity	Trading	Designated at fair value	Available for sale	Financial assets and financial liabilities at amortised cost	Derivatives designated as hedging instruments	Total
ASSETS								
Cash and balances with central banks						7,615		7,615
Loans and advances to credit institutions	14,937							14,937
Loans and advances to customers	113,956							113,956
Risk provisions for loans and advances	(3,296)							(3,296)
Trading assets			6,637					6,637
Financial assets - at fair value through profit or loss				4,534				4,534
Financial assets - available for sale					16,200			16,200
Financial assets - held to maturity		16,843						16,843
Investments of insurance companies[1)]	116	1,532		2,615	3,683			7,946
Derivatives in banking book[2)]			75				69	144
Accruals[2)]						2,172		2,172
Total financial assets	**125,713**	**18,375**	**6,712**	**7,149**	**19,883**	**9,787**	**69**	**187,688**
LIABILITIES								
Deposits by banks				106		35,059		35,165
Customer deposits						100,116		100,116
Debt securities in issue				45		31,033		31,078
Trading liabilities			1,756					1,756
Subordinated liabilities						5,589		5,589
Derivatives in banking book[3)]			84				658	742
Accruals[3)]						1,096		1,096
Total financial liabilities	**0**	**0**	**1,840**	**151**	**0**	**172,893**	**658**	**175,542**

1) Investments of insurance companies contain solely financial assets: loans and advances, financial assets – at fair value through profit or loss, financial assets – available for sale and financial assets – held to maturity.
2) Derivatives and accruals are reported in other assets.
3) Derivatives and accruals are reported in other liabilities.

47) Audit fees and Tax fees

The following table contains fundamental audit fees and tax fees charged by the auditors (of Erste Group Bank AG and subsidiaries; the auditors include primarily Sparkassen-Prüfungsverband, Ernst & Young and Deloitte) in the fiscal years 2008 and 2007:

in EUR million	2008	2007
Audit fees	11.1	10.4
Tax fees	1.5	1.4
Total	**12.6**	**11.8**

48) Contingent liabilities and other obligations

in EUR million	2008	2007
Contingent liabilities		
Guarantees and warranties	15,212	18,765
Other	479	429
Total	**15,691**	**19,194**
Other obligations		
Undrawn credit and loan commitments, promissory notes	22,149	21,193
Other	287	307
Total	**22,436**	**21,500**

Legal proceedings

Erste Group Bank AG and some of its subsidiaries are involved in legal disputes, most of which have arisen in the ordinary course banking business. These proceedings are not expected to have a significant negative impact on the financial position or profitability of the Erste Group and/or Erste Group Bank AG.. Erste Group is also subject to the following ongoing proceedings:

Cross-guarantee system

In 2002 Erste Group Bank AG formed the Haftungsverbund (referred to in German as the "Haftungsverbund") on the basis of a set of agreements with the majority of the Austrian savings banks. The purpose of the cross-guarantee system was to create an early-warning system, expand deposit insurance arrangements and strengthen cooperation in the savings bank sector.

In competition proceedings before the Austrian Cartel Court, two parties, a competitor of Erste Group Bank AG and the Austrian Federal Competition Authority, requested that the court prohibit the cross-guarantee system agreements on the grounds of alleged infringement of Article 81 of the EC Treaty.

In March 2007 the Supreme Court handed down a resolution and confirmed that the cross-guarantee system in its material provisions is compliant with Article 81 of the EC Treaty.

However, the Supreme Court held certain provisions to be anticompetitive on their merits. In its findings, the Supreme Court did not cite any explicit consequences that needed to be implemented by Erste Group Bank AG and the other parties. In April 2008, Erste Group Bank AG and the Cartel Court reached an understanding on the necessary adjustments to be made. This understanding (commitments within the meaning of section 27 Austrian Cartel Act) was challenged by the competitor before the Supreme Court. In October 2008 the Supreme Court set aside the decision of the Cartel Court due to a procedural error and remitted the case to the Cartel Court for reconsideration. Neither the commitments (if they are upheld) nor the preceding decision of the Supreme Court affect the permissibility of the consolidation of the savings banks' regulatory capital in Erste Group's balance sheet.

In 2007, Erste Group Bank AG entered into agreements with all Austrian savings banks (with the exception of two: Allgemeine Sparkasse Oberösterreich and Sparkasse Kufstein) that grant Erste Group Bank AG, on a contractual basis, a controlling influence over the savings banks and that lead to the establishment of a "Zusammenschluss" (merger) within the meaning of the EC Merger Regulation and the Austrian Cartel Act. These agreements were formally approved by the competition authorities in October 2007, January 2008, and May 2008. Erste Group Bank AG and Allgemeine Sparkasse Oberösterreich decided to enter into a closer cooperation which also qualifies as a "Zusammenschluss" (merger) within the meaning of the EC Merger Regulation / Austrian Cartel Act. Erste Group Bank AG and Sparkasse Kufstein adopted the necessary internal resolutions and entered into an agreement similar to the cross-guarantee system. The required applications for approval by the competition authorities will be filed as soon as possible.

State aid to Erste Bank Hungary

The European Commission has completed its investigation into the compatibility with the acquis communautaire of an "indemnity for unknown claims" granted by the Republic of Hungary to Erste Group Bank AG in relation to the acquisition of Postabank (later merged with Erste Bank Hungary). This investigation, in which Erste Group Bank AG participated as an affected third party, was undertaken in the course of the European Commission's review of past state aid granted by the governments of the 2004 EU accession states. While it has required the Republic of Hungary to terminate part of the indemnity, the Commission has confirmed the validity of the main issues for which the indemnity was granted (e.g., in relation to potential claims by previous auditors of Postabank).

Auditors' Case - Erste Bank Hungary

Deloitte Hungary and Arthur Andersen Kft have been sued by the Hungarian state alleging that, as the majority shareholder of former Postabank, the Hungarian state suffered substantial losses as a result of negligence by certain auditors in respect of their work as auditors of Postabank's financial statements for certain periods between 1995 and 1998. The Hungarian state alleges that the auditors were negligent in not uncovering certain transactions which disguised losses suffered by Postabank, as well as uncertainties in relation to Postabank's provisioning and certain other matters. The state further alleges that if the auditors had uncovered these problems as part of their audit, the shareholders of Postabank would have taken corrective action which would have prevented further losses.

After the court of first instance had found that Deloitte Hungary and the Hungarian state were each 50% liable for the errors in Postabank's financial statements, in early 2007 the court of appeal overturned the ruling and sent the case back to the court of first instance. In its ruling it stated with final and binding effect that, under the law, some of the monies lost by the state cannot be regarded as damages. The amount currently claimed by the Hungarian state is in the area of HUF 50 billion (EUR 200 million).

Deloitte Hungary and Arthur Andersen Kft have each filed an arbitration suit against Erste Bank Hungary as the successor to Postabank alleging that any errors in the financial statements of Postabank were the result of erroneous data provided by Postabank to them. These proceedings have been suspended until a final and binding judgment is brought in the case of the Hungarian state against the auditors.

Consumer protection

The Austrian consumer protection association (the "VKI") has criticised the terms and conditions of three series of note issues. In particular, apart from the provision relating to the calculation of interest, the unilateral termination right of the issuer contained in the terms and conditions of such notes has been criticised by the VKI. Pursuant to the terms and conditions of these notes, the issuer has a right to terminate the notes at certain times and upon certain notice periods in order to be able to terminate such notes in case of unfavourable market conditions, while the investor waives its termination right. In turn, the interest paid on these notes is higher than for comparable notes. As Erste Bank der oesterreichischen Sparkassen AG has not signed the VKI´s declaration to cease and desist, the group was confronted with a class action, which was delivered on 19 August 2008.

It is not possible to predict the outcome of the legal proceedings. The fact is that a large number of Austrian and foreign banks have issued similar instruments to Austrian consumers in order to make possible borrowing and the maintenance of debt and thus to permit dependable capital structure planning. Erste Group Bank AG believes that a negative outcome of the proceedings in relation to these note issues will not have a material adverse effect on its financial position.

49) Analysis of remaining maturities

2008 in EUR million	2008		2007	
	< 1 year	> 1 year	< 1 year	> 1 year
Loans and advances to credit institutions	11,328	3,016	12,687	2,250
Loans and advances to customers	36,737	89,448	34,103	79,853
Trading assets	4,290	3,244	2,422	4,215
Financial assets - at fair value through profit or loss	816	3,242	426	4,108
Financial assets - available for sale	1,974	14,059	3,153	13,047
Financial assets - held to maturity	2,301	11,844	3,710	13,133
Total	**57,446**	**124,853**	**56,501**	**116,606**
Deposits by banks	28,725	5,947	30,624	4,541
Customer deposits	91,801	17,504	78,890	21,227
Debt securities in issue	9,868	20,615	11,989	19,089
Trading liabilities	1,500	1,019	672	1,084
Subordinated liabilities	378	5,669	62	5,526
Total	**132,272**	**50,754**	**122,237**	**51,467**

50) Principal shareholder

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.

The foundation received a dividend of EUR 73,694,275.50 on its shareholding in Erste Group Bank AG in 2008 (for the 2007 financial year). The purpose of the foundation, which is intended to be achieved particularly by holding a substantial equity interest in Erste Group Bank AG, is to support social, scientific, cultural and charitable institutions as well as to generally promote the guiding principles of the savings bank philosophy. At 31 December 2008 the members of the foundation's management board were Andreas Treichl (chairman of the management board of Erste Group Bank AG), Dietrich Karner, Richard Wolf and Boris Marte. At that date the foundation's supervisory board had nine members, two of whom are also members of the supervisory board of Erste Group Bank AG.

Under clause 15.1. of the articles of association, DIE ERSTE österreichische Spar-Casse Privatstiftung is entitled – so long as, under section 92(9) Austrian Banking Act, it guarantees all present and future liabilities of Erste Group Bank AG in the event of the latter's insolvency – to delegate up to one-third of the supervisory board members to be elected by the annual general meeting. To date this right of delegation has not been exercised.

51) Own funds and capital requirement

The qualifying capital of Erste Group Bank-group of credit institutions as determined under the Austrian Banking Act had the following composition:

in EUR million	2008 BASEL II	2007 BASEL II
Subscribed capital (less own shares)	634	633
Reserves and minority interests	7,520	6,655
Intangible assets	(513)	(485)
Core capital (Tier 1 before deductions	**7,641**	**6,802**
Deductions from core capital (Tier 1) pursuant to section 23 (13/3) until 4d Austrian Banking Act	(193)	(128)
Core capital (Tier 1) after deductions	**7,448**	**6,674**
Eligible subordinated liabilities	4,195	3,875
Revaluation reserve	140	130
Excess risk provisions	0	250
Qualifying supplementary capital (Tier 2)	**4,335**	**4,255**
Short-term subordinated capital (Tier 3)	**402**	**386**
Deductions from qualifying supplementary capital (50% pursuant to section 23 (13/3) until 23 (13/4d) excl. section 23 (13/4a) Austrian Banking Act	(193)	(128)
Deductions from qualifying supplementary capital pursuant to section 23 (13/4a) Austrian Banking Act	(234)	(73)
Total eligible qualifying capital	**11,758**	**11,114**
Capital requirement	9,598	8,769
Surplus capital	2,160	2,345
Cover ratio	122.5%	126.7%
Tier 1 ratio	**7.2%**	**7.0%**
Solvency ratio	**10.1%**	**10.5%**

The minimum capital requirement as determined under the Austrian Banking Act was fulfilled at all times during the year under review and the prior year.

The capital requirement of Erste Group Bank-group of credit institutions under the Austrian Banking Act was as follows:

in EUR million	2008 BASEL II	2007 BASEL II
Risk-weighted assessment basis pursuant to section 22 (2) Austrian Banking Act	103,663	95,091
8% minimum capital requirement	8,293	7,607
a) Standardised approach	3,027	3,706
b) Internal ratings based approach (IRB)	5,266	3,901
Settlement Risk	0	0
Position-risk in debt instruments, intrinsic value, foreign currencies and commodity risks	402	394
Capital requirement for operational risks	903	768
Capital requirements for qualified non-financial subsidiaries	0	0
Capital requirement	**9,598**	**8,769**

In October 2008 Erste Group Bank AG was advised by the Austrian Financial Market Authority (FMA) that Erste Group, as a result of the sale of 85% of the shares of Sparkassen Versicherung Aktiengesellschaft, is not considered a financial conglomerate within the meaning of section 2(14) Financial Conglomerates Act. Erste Group therefore is no longer subject to the additional supervision under section 5(1)(1) of this Act or the disclosure requirement under section 14(3) of the Act.

52) Events after the balance sheet date

With effect from 20 January 2009, Sparkasse Kufstein joined the cross-guarantee system of the Austrian savings banks. From that date, Sparkasse Kufstein will be included in the consolidated financial statements of Erste Group.

In January 2009, Erste Group Bank AG and the Ministry of Finance concluded a master guarantee agreement for bond issues. Under this programme, Erste Group Bank AG can issue bonds totalling up to EUR 6 billion, backed by a guarantee of the Republic of Austria.

At the end of February Erste Group signed an agreement with the Republic of Austria regarding capitalisation measures originally announced in October 2008. This allows for an issue of participation capital and hybrid capital in an amount of up to EUR 2.7 billion. In line with the decision of the Extraordinary General Meeting of 2 December 2008, Erste Group will offer the participation capital (which according to § 23 Para. 4 and 5 of the Austrian Banking Act ranks pari passu with equity capital) to existing shareholders in accordance with their subscription rights as well as to retail and institutional investors. The offer is expected to run from mid to late April 2009. Since the issue of the participation certificates is in accordance with the subscription rights, there is no dilution for existing shareholders. Irrespective of market conditions, Erste Group expects to place at least EUR 400 million in the market. The terms of the agreement state that, as a result of the public placement there will be no restrictions on the dividend distribution and the interest rate for the participation capital will be 8% p.a. Depending on the take-up of subscription rights by the existing shareholders and the private placement, the Republic of Austria will subscribe for a maximum of EUR 1.89 billion of participation capital. The participation capital is not convertible into ordinary shares. Should the capital not be repaid, the interest rate will increase by 0.5 percentage points in both the sixth and seventh years, by 0.75 percentage points in the eighth year and by one percentage point for every year after that. The interest rate is, however, restricted to a maximum of 12-month Euribor plus 10% p.a. The overall package also allows for an issue of hybrid capital by Erste Bank der oesterreichischen Sparkassen AG with an interest rate of at least 8.15% p.a.

In connection with the sale of the insurance activities to Vienna Insurance Group (VIG), and with a view to further intensifying the cooperation with VIG, Erste Group acquired Ringturm KAG, the asset management business of VIG.

53) Boards of Erste Group Bank AG

SUPBERVISORY BOARD

Heinz Kessler, President	Retired CEO
Georg Winckler, First Vice President	Rector of the University of Vienna Professor of Economics at the University of Vienna
Theresa Jordis, Second Vice President	Attorney at law
Bettina Breiteneder	Businesswoman
Elisabeth Gürtler	Businesswoman
Jan Homan	Chief Executive Officer of Teich AG
Brian Deveraux O´Neill	Retired Businessman
Wilhelm Rasinger	Businessman
Friedrich Rödler	Public Accountant and Tax Consultant
Hubert Singer, until 6 May 2008	Chief Executive Officer of Dornbirner Sparkasse AG
John James Stack	Retired Businessman
Werner Tessmar-Pfohl, since 6 May 2008	Retired Businessman
Gabriele Zuna-Kratky	Manager of Technisches Museum Wien

REPRESENTATIVES OF THE STAFF COUNCIL

Friedrich Lackner	Chairman of the 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
Günter Benischek, until 9 August 2008	Chairman of the Central Staff Council
Erika Hegmala, until 9 August 2008	Vice Chairwoman of the Central Staff Council
Ilse Fetik, until 9 August 2008	Member of the Central Staff Council
Christian Havelka	Member of the Staff Council
Andreas Lachs, since 9 August 2008	Member of the Staff Council
David Krieber, from 17 January until 9 August 2008	Member of the Central Staff Council

REPRESENTATIVES OF THE SUPERVISORY AUTHORITY

Robert Spacek	State Commissioner
Dietmar Griebler	Deputy State Commissioner
Marcus Heinz	State Controller for Premium Reserve
Eduard Moser	Deputy State Controller for Premium Reserve
Irene Kienzl	Trustee under Mortgage Bank Act
Anton Rainer	Deputy Trustee under Mortgage Bank Act

MANAGEMENT BOARD

Andreas Treichl	Chairman
Elisabeth Bleyleben-Koren, until 9 August 2008	Deputy Chairwoman, until 9 August 2008
Peter Bosek, until 9 August 2008	Member
Franz Hochstrasser	Deputy Chairman, since 24 September 2008
Herbert Juranek	Member
Johannes Kinsky, until 29 June 2008	Member
Peter Kisbenedek, until 30 June 2008	Member
Bernhard Spalt	Member
Thomas Uher, until 9 August 2008	Member
Manfred Wimmer, since 1 September 2008	Member

54) Details of the companies wholly or partly owned by Erste Group at 31 December 2008

The table below presents material fully consolidated subsidiaries and accociates accounted for at equity.

Company name, registered office	Interest additive	Interest of Erste Group
Fully consolidated subsidiaries		
Credit institutions		
Allgemeine Sparkasse Oberösterreich Bankaktiengesellschaft, Linz (Group)	26.9%	26.9%
Banca Comercială Română S.A., Bukarest (Group)	69.3%	69.3%
Bausparkasse der österreichischen Sparkassen Aktiengesellschaft, Vienna	95.0%	95.0%
Česká spořitelna a.s., Prague (Group)	98.0%	98.0%
Dornbirner Sparkasse Bank AG, Dornbirn	0.0%	0.0%
Erste & Steiermärkische banka d.d., Rijeka (Group)	96.1%	65.3%
Erste Bank (Malta) Limited, Sliema	100.0%	100.0%
ERSTE BANK AD NOVI SAD, Novi Sad	100.0%	80.5%
Erste Bank der oesterreichischen Sparkassen AG, Vienna	100.0%	100.0%
Erste Bank Hungary Nyrt., Budapest (Group)	99.9%	99.9%
Kärntner Sparkasse Aktiengesellschaft, Klagenfurt (Group)	25.0%	25.0%
Kremser Bank und Sparkassen Aktiengesellschaft, Krems an der Donau	0.0%	0.0%
Open Joint-Stock Company "Erste Bank", Kiev	100.0%	100.0%
s Wohnbaubank AG, Vienna (Group)	94.3%	90.6%
Salzburger Sparkasse Bank Aktiengesellschaft, Salzburg	98.7%	98.7%
Slovenská sporiteľňa a.s., Bratislava (Group)	100.0%	100.0%
Sparkasse Baden, Baden	0.0%	0.0%
Sparkasse Bludenz Bank AG, Bludenz	0.0%	0.0%
Sparkasse Bregenz Bank Aktiengesellschaft, Bregenz	96.3%	0.0%
Sparkasse der Stadt Feldkirch, Feldkirch	0.0%	0.0%
Sparkasse der Stadt Kitzbühel, Kitzbühel	0.0%	0.0%
Sparkasse Eferding-Peuerbach-Waizenkirchen, Eferding	0.0%	0.0%
Sparkasse Hainburg-Bruck-Neusiedl Aktiengesellschaft, Hainburg an der Donau	75.0%	75.0%
Sparkasse Horn-Ravelsbach-Kirchberg Aktiengesellschaft, Horn	0.0%	0.0%
Sparkasse Imst AG, Imst	0.0%	0.0%
Sparkasse Kremstal-Pyhrn Aktiengesellschaft, Kirchdorf a.d. Krems	30.0%	30.0%
Sparkasse Mühlviertel-West Bank Aktiengesellschaft, Rohrbach	40.0%	40.0%
Sparkasse Neunkirchen, Neunkirchen	0.0%	0.0%
SPARKASSE NIEDERÖSTERREICH MITTE WEST AKTIENGESELLSCHAFT, St. Pölten	0.0%	0.0%
Sparkasse Schwaz AG, Schwaz (Group)	0.0%	0.0%
Sparkasse Voitsberg-Köflach Bankaktiengesellschaft, Voitsberg	8.5%	6.5%
Sparkasse Waldviertel-Mitte Bank AG, Zwettl	0.0%	0.0%
Steiermärkische Bank und Sparkassen Aktiengesellschaft, Graz (Group)	25.0%	25.0%
Tiroler Sparkasse Bankaktiengesellschaft Innsbruck, Innsbruck (Group)	99.4%	75.0%
Waldviertler Sparkasse von 1842 AG, Waidhofen an der Thaya	11.3%	0.0%
Weinviertler Sparkasse AG, Hollabrunn	49.4%	49.4%
Wiener Neustädter Sparkasse, Wiener Neustadt	0.0%	0.0%

Company name, registered office	Interest additive	Interest of Erste Group
Other financial institutions		
EBV - Leasing Gesellschaft m.b.H. & Co. KG., Vienna (Group)	100.0%	100.0%
ERSTE FACTORING d.o.o., Zagreb	100.0%	84.7%
IMMORENT Aktiengesellschaft, Vienna (Group)	100.0%	100.0%
Others		
Erste Finance (Delaware) LLC, City of Wilmington	100.0%	100.0%
Associates accounted for at equity		
Credit institutions		
„Spar - Finanz“ - Investitions- und Vermittlungs-Aktiengesellschaft, Vienna	50.0%	50.0%
Intermarket Bank AG, Vienna (Group)	22.4%	22.4%
NÖ Beteiligungsfinanzierungen GmbH, Vienna	30.0%	30.0%
NÖ Bürgschaften GmbH, Vienna	25.0%	25.0%
PayLife Bank GmbH (former Europay Austria Zahlungsverkehrssysteme GmbH), Vienna	19.9%	16.6%
PRIVATINVEST BANK AKTIENGESELLSCHAFT, Salzburg	26.0%	25.7%
Prvá stavebná sporitelna, a.s., Bratislava (Group)	35.0%	35.0%
Others		
APHRODITE Bauträger Aktiengesellschaft, Vienna	50.0%	45.5%
ASC Logistik GmbH, Vienna	24.0%	24.0%
ERSTE d.o.o., Zagreb	24.4%	15.4%
Gelup GesmbH, Vienna	33.3%	31.6%
Immobilien West Aktiengesellschaft, Salzburg	50.0%	49.4%
Informations-Technologie Austria GmbH, Vienna	50.0%	41.8%
Let's Print Holding AG, Graz	42.0%	42.0%
LTB Beteiligungs GmbH, Vienna	25.0%	25.0%
RSV Beteiligungs GmbH, Vienna	33.3%	33.3%
Sparkassen Immobilien Aktiengesellschaft, Vienna (Group)	9.0%	9.0%
VBV - Betriebliche Altersvorsorge AG, Vienna	28.8%	26.4%
VERMREAL Liegenschaftserwerbs- und -betriebs GmbH, Vienna	25.6%	25.6%

Vienna, 10 March 2009

The Management Board

Andreas Treichl
Chairman

Franz Hochstrasser
Vice Chairman

Herbert Juranek
Member

Bernhard Spalt
Member

Manfred Wimmer
Member

AUDITOR´S REPORT (REPORT OF THE INDEPENDENT AUDITORS)*)

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Erste Group Bank AG, Vienna, for the financial year from 1 January 2008 to 31 December 2008. These consolidated financial statements comprise the balance sheet as at 31 December 2008, and the income statement, cash flow statement and statement of changes in equity for the year ended 31 December 2008, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

Erste Group Bank AG's management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and in accordance with International Standards on Auditing (ISA), issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

Our audit did not give rise to any objections.

Based on the results of our audit in our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the group as of 31 December 2008, and of its financial performance and its cash flows for the financial year from 1 January 2008 to 31 December 2008 in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Laws and regulations applicable in Austria require us to perform audit procedures whether the consolidated management report is consistent with the consolidated financial statements and whether the other disclosures made in the consolidated management report do not give rise to misconception of the position of the group.

In our opinion, the consolidated management report for the group is consistent with the consolidated financial statements.

Vienna, 10 March 2009

Sparkassen-Prüfungsverband
(Prüfungsstelle)
(Austrian Savings Bank Auditing Association)
(Audit Agency)
(Bank auditor)

Friedrich Hief mp Certified Public Accountant	Erich Kandler mp Certified Public Accountant

Ernst & Young
Wirtschaftsprüfungsgesellschaft m.b.H.

Helmut Maukner mp Certified Public Accountant	Elisabeth Glaser mp Certified Public Accountant

*) The report (in the German language, or translations into another language, including shortened or amended versions) may not be made public or used by third parties, when reference is made in part or in whole to the auditors report, without the express written consent of the auditors.

STATEMENT OF ALL MEMBERS OF THE MANAGEMENT BOARD

We confirm to the best of our knowledge that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group as required by the applicable accounting standards and that the group management report gives a true and fair view of the development and performance of the business and the position of the group, together with a description of the principal risks and uncertainties the group faces.

Vienna, 10 March 2009

The Management Board

Andreas Treichl
Chairman

Franz Hochstrasser
Vice Chairman

Herbert Juranek
Member

Bernhard Spalt
Member

Manfred Wimmer
Member

Glossary

Average total shareholder return
Average of the annual total shareholder returns since the IPO in 1997.

Book value per share
Equity capital of a public company divided by the number of shares outstanding excluding treasury shares.

Cash return on equity
Also referred to as cash-ROE. Calculated as return on equity, but excluding the impact of non-cash items on net profit after minorities, such as goodwill impairment and amortisation of customer relationships.

Cash earnings per share
Calculated as earnings per share, but excluding the impact of non-cash items on net profit, such as goodwill impairments and amortisation of customer relationships.

CEE (Central and Eastern Europe)
Covers the new member states of the EU that joined in 2004 and 2007 as well as the CIS countries and the states that evolved from the former Yugoslavia.

Cost/Income Ratio
General administrative expenses as a percentage of operating income.

Coverage ratio (own funds)
Own funds as a percentage of the statutory minimum capital requirement.

Coverage ratio (risk provisions)
Risk provisions as a percentage of non-performing loans excluding collateral.

Dividend yield
Dividend payment of the fiscal year as a percentage of the year-end closing price or the most recent price of the share.

Earnings per share
Net profit after minorities divided by average shares outstanding.

Interest-bearing assets
Total assets less cash, trading assets, tangible and intangible fixed assets, tax assets and other assets.

Net interest margin
Net interest income as a percentage of average interest-bearing assets, calculated on a monthly basis.

Operating income
Consists of net interest income, net commission income and trading result.

Operating result
Operating income less operating expenses (=general administrative expenses).

Price/earnings ratio
Closing share price of the fiscal year divided by earnings per share. Usually used for valuation comparisons.

Market capitalisation
Overall value of a company calculated by multiplying the share price by the number of shares outstanding.

NPL ratio
Non-performing loans as a percentage of total credit exposure.

Return on equity
Also referred to as ROE. Net profit after minorities as a percentage of average equity. Average equity is calculated on the basis on month-end values.

Return on investment
A measurement of yield which reflects the interest on the capital invested. It is calculated as a percentage profit on the capital.

Risk categories
The classification of credit assets into the risk classes is based on Erste Group`s internal rating of customers. Erste Group employs internal rating systems that, for private individuals, have eight rating grades for customers not in default and one grade for customers in default; for all other clients, the internal rating systems have 13 rating grades for customers not in default and one rating grade for those in default.

Risk category – low risk
The borrower demonstrates a strong repayment capacity; new business generally involves clients in this risk class.

Risk category – management attention
The borrower's financial situation is rather good, but his repayment ability may be negatively affected by unfavourable economic conditions. New business with clients in this risk class requires adequate structuring of the credit risks, e.g. by way of collateral.

Risk category – substandard
The borrower is vulnerable to negative financial and economic impacts; such loans are managed in specialised risk management departments.

Risk category – non-performing
Non-performing: at least one of the default criteria under Basel II, e.g. total repayment unlikely, interest or principal payment more than 90 days past due, restructuring resulting in a loss to lender, realisation of a loan loss, or opening of bankruptcy proceedings.

Share capital
The equity capital of a company subscribed by the shareholders at par.

Solvency ratio
Total own funds less trading book requirements, unsettled currency positions and operational risk as a percentage of risk-weighted assets under section 22 (2) of the Austrian banking Act (BWG).

Tax rate
Taxes on income as a percentage of pre-tax profit.

Tier 1 ratio
Regulatory core capital according to Austrian Banking Act as a percentage of risk weighted assets under section 22 (2) Austrian Banking Act (BWG).

Total shareholder return
Annual performance of an investment in Erste Group Bank AG shares including all income streams, such as dividends.

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