

## Prospectus Supplement No. 2



# Erste Group Bank AG

*(Incorporated as a joint stock company in the Republic of Austria under registered number FN 33209 m)*

relating to the

**€30,000,000,000**

## Debt Issuance Programme

This supplement (the "Supplement") constitutes a prospectus supplement pursuant to Art 16 (1) of the Directive 2003/71/EC (the "Prospectus Directive") and Article 13.1 of Chapter 1 of Part II of the Luxembourg Act dated 10 July 2005 on prospectuses for securities (the "Prospectus Act") and is supplemental to, and should be read in conjunction with, the prospectus dated 8 June 2010 (the "Original Prospectus"), and the first supplement dated 9 June 2010 (the "First Supplement" and together with the Original Prospectus and this Supplement, the "Prospectus") relating to a €30,000,000,000 Debt Issuance Programme (the "Programme") of Erste Group Bank AG (the "Issuer" or "Erste Group Bank").

The Original Prospectus was approved on 8 June 2010 and the First Supplement was approved on 9 June 2010 by the *Commission de Surveillance du Secteur Financier* ("CSSF") of the Grand-Duchy of Luxembourg ("Luxembourg") in its capacity as competent authority under the Prospectus Act.

This Supplement has been filed for approval with the CSSF in its capacity as competent authority under the Prospectus Act. This Supplement has been filed with the Wiener Börse, which has admitted the Programme to the "Amtlicher Handel" (Official Market) and the "Geregelter Freiverkehr" (Second Regulated Market). This Supplement has been published in electronic form on the website of the Issuer under "www.erstegroup.com" and the website of the Luxembourg Stock Exchange under www.bourse.lu. Printed copies of this Supplement will be made available free of charge at the registered office of the Issuer, Graben 21, 1010 Vienna, Austria. The Issuer has requested the CSSF to provide the competent authorities in other host Member States within the European Economic Area including Austria, Germany, the Czech Republic, Hungary, the Slovak Republic, Romania, Slovenia, Italy and Malta with a certificate of approval attesting that this Supplement has been drawn up in accordance with the Prospectus Directive and relevant implementing legislation in Luxembourg.

Terms defined in the Prospectus shall have the same meaning when used in this Supplement.

**This Supplement does not constitute an offer of, or an invitation by or on behalf of any of the Issuer, the Dealers or the Arrangers to subscribe for, or purchase, any Notes.**

To the extent that there is any inconsistency between a) any statement in this Supplement or any statement incorporated by reference into the Prospectus by this Supplement and b) any other statement in or incorporated by reference in the Prospectus, the statements in a) above will prevail.

Save as disclosed in this Supplement, no other significant new factor, material mistake or inaccuracy relating to information in the Prospectus has arisen or been noted, as the case may be, since the publication of the Prospectus.

**In accordance with Art 16 of the Prospectus Directive and Article 13.2 of Chapter 1 of Part II of the Prospectus Act, investors who have agreed to subscribe for Notes after the occurrence of the significant new factors described in this Supplement but before the publication of this Supplement have a right to withdraw their acceptances within two banking days after the date of publication of this Supplement.**

**29 March 2011**

*No person has been authorised to give any information or to make any representation other than those contained in this Supplement in connection with the issue or sale of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any of the Dealers (as defined in "Subscription and Sale" of the Prospectus) or either of J.P. Morgan Securities Ltd. (the "International Arranger") or Erste Group Bank AG (in its capacity as the arranger of issues of Domestic Notes only, the "Domestic Arranger" and together with the International Arranger, the "Arrangers"). Neither the delivery of this Supplement nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer or the Erste Group since the date hereof or the date upon which this Supplement has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer or the Erste Group since the date hereof or the date upon which this Supplement has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.*

*The distribution of this Supplement and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Supplement comes are required by the Issuer, the Dealers and the Arrangers to inform themselves about and to observe any such restriction. The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), and may include Notes in bearer form that are subject to US tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to US persons. For a description of certain restrictions on offers and sales of Notes and on distribution of this Supplement, see "Subscription and Sale" of the Prospectus.*

*The Dealers and the International Arranger have not separately verified the information contained in this Supplement. None of the Dealers or the International Arranger makes any representation, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this Supplement. Neither this Supplement nor any financial statements supplied in connection with the Programme or any Notes are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuer, the Dealers or the Arrangers that any recipient of this Supplement or any financial statements should purchase the Notes. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Supplement or any financial statements and its purchase of Notes should be based upon any such investigation as it deems necessary. None of the Dealers or the International Arranger undertakes to review the financial condition or affairs of the Issuer or the Erste Group during the life of the arrangements contemplated by this Supplement nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Dealers or the International Arranger.*

Significant new factors (as referred to in Art 16.1 of the Prospectus Directive and Article 13.1 of Chapter 1 of Part II of the Prospectus Act) relating to the information included in the Original Prospectus which are capable of affecting the assessment of the Notes, have arisen and the following changes / supplements are herewith made to the Original Prospectus:

On 1 January 2011, the Budget Accompanying Act of 2011 (*Budgetbegleitgesetz 2011*), which leads to significant changes in the taxation of financial instruments, entered into force. Thus, the information on Austrian taxation in the Prospectus is not accurate anymore and is replaced as follows:

### **1. Additional Risk Factor**

At the end of the section headed "Risk Factors relating to the Issuer" on page 40 of the Original Prospectus above the section headed "Risk Factors relating to the Notes" the following new risk factor is included:

#### **"The stability tax (*Stabilitätsabgabe*) for credit institutions in Austria could negatively affect the Issuer's financial condition**

Recently, the Budget Accompanying Act of 2011 (*Budgetbegleitgesetz 2011*) entered into force which foresees that credit institutions are charged with a stability tax from 1 January 2011 on. The stability tax is calculated (i) from the credit institutions' average total assets based on the credit institutions' single (non-consolidated) annual financial statements (basically reduced by own funds and secured deposits) and (ii) from the business volume of all derivatives which are allocated to the trading book. The amount of funds to be paid by the Issuer in connection with the stability tax could significantly negatively affect the Issuer's financial condition."

### **2. Summary of Risk Factors**

The new risk factor outlined above needs to be reflected in the summary of risk factors. Thus in the section headed "Risk Factors relating to the Issuer" commencing on page 20 of the Original Prospectus, after the last bullet point on page 21 of the Original Prospectus the following new bullet point is added:

- "The stability tax (*Stabilitätsabgabe*) for credit institutions in Austria could negatively affect the Issuers' financial condition"

### **3. Tax Section**

Part I ("Austria") of the section TAXATION which commences on top of page 196 of the Original Prospectus and ends after the third paragraph from the top of page 198 of the Original Prospectus (above "Czech Republic") is deleted in its entirety and replaced by the following paragraphs:

*"This section on taxation contains a brief summary of the Issuer's understanding with regard to certain important principles which are of significance in Austria in connection with the purchase, holding or sale of the Notes in the Republic of Austria. This summary does not purport to exhaustively describe all possible tax aspects and does not deal with specific situations which may be of relevance for certain potential investors. The following comments are rather of a general nature and included herein solely for information purposes. These comments are not intended to be, nor should they be construed to be, legal or tax advice. This summary furthermore only refers to investors which are subject to unlimited (corporate) income tax liability in Austria. It is based on the currently valid tax legislation, case law and regulations of the tax authorities, as well as their respective interpretation, all of which may be amended from time to time. Such amendments may possibly also be effected with retroactive effect and may negatively impact on the tax consequences described. It is recommended that potential purchasers of the Notes consult with their legal and tax advisors as to the tax*

consequences of the purchase, holding or sale of the Notes. Tax risks resulting from the Notes shall in any case be borne by the purchaser. In general, it has to be noted that the Austrian tax authorities have a rather critical attitude towards structured products which may also give rise to tax benefits.

### **General**

Individuals having a permanent domicile (*Wohnsitz*) and/or their habitual abode (*gewöhnlicher Aufenthalt*) in Austria are subject to income tax (*Einkommensteuer*) in Austria on their worldwide income (unlimited income tax liability; *unbeschränkte Einkommensteuerpflicht*). Individuals having neither a permanent domicile nor their habitual abode in Austria are subject to income tax only on income from certain Austrian sources (limited income tax liability; *beschränkte Einkommensteuerpflicht*).

Corporations having their place of effective management (*Ort der Geschäftsleitung*) and/or their legal seat (*Sitz*) in Austria are subject to corporate income tax (*Körperschaftsteuer*) in Austria on their worldwide income (unlimited corporate income tax liability; *unbeschränkte Körperschaftsteuerpflicht*). Corporations having neither their place of effective management nor their legal seat in Austria are subject to corporate income tax only on income from certain Austrian sources (limited corporate income tax liability; *beschränkte Körperschaftsteuerpflicht*).

Both in case of unlimited and limited (corporate) income tax liability Austria's right to tax may be restricted by double taxation treaties.

On 1 January 2011 the Budget Accompanying Act of 2011 (*Budgetbegleitgesetz 2011*), which leads to significant changes in the taxation of financial instruments, entered into force. The tax disclosure below already incorporates the changes contained therein.

### **Income taxation of Notes purchased before 1 October 2011**

In general, the Notes qualify as bonds (*Forderungswertpapiere*) in the sense of sec. 93(3) of the Austrian Income Tax Act (*Einkommensteuergesetz*).

Individuals subject to unlimited income tax liability in Austria holding bonds in the sense of sec. 93(3) of the Austrian Income Tax Act as a non-business asset (*Privatvermögen*) are subject to income tax on all resulting interest payments (which term also encompasses the difference between the redemption price and the issue price) pursuant to sec. 27(1)(4) and sec. 27(2)(2) of the Austrian Income Tax Act. If such interest is paid out by an Austrian paying agent (*kuponauszahlende Stelle*) then the payments are subject to a withholding tax of 25%. No additional income tax is levied over and above the amount of tax withheld (final taxation; *Endbesteuerung*) in case the bonds are legally and factually offered to an indefinite number of persons. If interest payments are not effected through an Austrian paying agent, a flat income tax rate of 25% applies in case the bonds are in addition legally and factually offered to an indefinite number of persons. Since in this case no withholding tax is levied, interest payments must be included in the income tax return of the investor. Expenses having a nexus with the interest income taxed at the flat rate of 25% are not deductible. If the bonds are not legally and factually offered to an indefinite number of persons then the interest payments must also be included in the investor's income tax return and are subject to income tax at a marginal rate of up to 50%, any withholding tax being creditable against the income tax liability.

Individuals subject to unlimited income tax liability in Austria holding bonds as a business asset (*Betriebsvermögen*) are subject to income tax on all resulting interest payments (which term also encompasses the difference between the redemption price and the issue price). Such interest payments are subject to a withholding tax of 25% in case they are paid out by an Austrian paying agent. No additional income tax is levied over and above the amount of tax withheld (final taxation) in case the bonds are legally and factually offered to an indefinite

number of persons. If interest payments are not effected through an Austrian paying agent, a flat income tax rate of 25% applies in case the bonds are in addition legally and factually offered to an indefinite number of persons. Since in this case no withholding tax is levied, interest payments must be included in the income tax return of the investor. Expenses having a nexus with the interest income taxed at the flat rate of 25% are not deductible. If the bonds are not legally and factually offered to an indefinite number of persons, then the interest payments must also be included in the investor's income tax return and are subject to income tax at a marginal rate of up to 50%, any withholding tax being creditable against the income tax liability.

Corporations subject to unlimited corporate income tax liability in Austria are subject to corporate income tax on all interest payments (which term also encompasses the difference between the redemption price and the issue price) resulting from bonds at a rate of 25%. Under the conditions set forth in sec. 94(5) of the Austrian Income Tax Act no withholding tax is levied.

Private foundations (*Privatstiftung*) pursuant to the Austrian Private Foundations Act (*Privatstiftungsgesetz*) fulfilling the prerequisites contained in sec. 13(6) of the Austrian Corporate Income Tax Act (*Körperschaftsteuergesetz*) and holding bonds as a non-business asset are subject to interim taxation (*Zwischenbesteuerung*) on all resulting interest payments received (which term also encompasses the difference between the redemption price and the issue price) at a rate of 25% in case the bonds are in addition legally and factually offered to an indefinite number of persons. Expenses having a nexus with the interest income taxed at the flat rate of 25% are not deductible. If the bonds are not legally and factually offered to an indefinite number of persons, then the interest payments are subject to corporate income tax at a rate of 25%. Under the conditions set forth in sec. 94(11) of the Austrian Income Tax Act no withholding tax is levied.

#### ***Income taxation of Notes purchased after 30 September 2011***

With the passing of the Budget Accompanying Act of 2011, the Austrian legislator intends to comprehensively realign the taxation of financial instruments, in particular with regard to capital gains. Pursuant to the newly worded sec. 27(1) of the Austrian Income Tax Act, the term investment income (*Einkünfte aus Kapitalvermögen*) comprises:

- income from the letting of capital (*Einkünfte aus der Überlassung von Kapital*) pursuant to sec. 27(2) of the Austrian Income Tax Act, including dividends and interest on bonds (as well as the balance between the redemption price and the issue price in case of zero coupon bonds);
- income from realised increases in value (*Einkünfte aus realisierten Wertsteigerungen*) pursuant to sec. 27(3) of the Austrian Income Tax Act, including gains from the sale, redemption and other realisation of assets that lead to income from the letting of capital, and also broken-period interest; and
- income from derivatives (*Einkünfte aus Derivaten*) pursuant to sec. 27(4) of the Austrian Income Tax Act, including cash settlements, option premiums received and income from the sale or other realisation of forward contracts like options, futures and swaps and other derivatives such as index certificates.

Basically, also the withdrawal of Notes from bank deposits (*Depotentnahme*) is considered as a realisation of assets; however, no taxation is triggered if certain disclosures are made.

Individuals subject to unlimited income tax liability in Austria holding Notes as a non-business asset are subject to income tax on all resulting investment income pursuant to sec. 27(1) of the Austrian Income Tax Act. In case of investment income with an Austrian nexus (*inländische Einkünfte aus Kapitalvermögen*), basically meaning income that is paid by an Austrian paying agent (*auszahlende Stelle*) or an Austrian custodian agent (*depotführende*

*Stelle*), the income is subject to a withholding tax of 25%; no additional income tax is levied over and above the amount of tax withheld (final taxation pursuant to sec. 97(1) of the Austrian Income Tax Act). In case of investment income without an Austrian nexus, the income must be included in the income tax return; in this case it is subject to a flat income tax rate of 25%. Expenses having a nexus with the interest income taxed at the flat rate of 25% are not deductible. Special rules apply for bonds that have not been legally and factually offered to an indefinite number of persons. Here, the investment income will in no case be subject to a withholding tax, but will always have to be included in the income tax return (marginal rate of up to 50%). Certain restrictions apply regarding the offsetting of losses.

Individuals subject to unlimited income tax liability in Austria holding Notes as a business asset are subject to income tax on all resulting investment income pursuant to sec. 27(1) of the Austrian Income Tax Act. In case of investment income with an Austrian nexus (as described above) the income is subject to a withholding tax of 25%. While this withholding tax has the effect of final taxation for income from the letting of capital, income from realised increases in value and income from derivatives must on the other hand be included in the income tax return (nevertheless flat income tax rate of 25%). In case of investment income without an Austrian nexus, the income must always be included in the income tax return (flat income tax rate of 25%). Expenses having a nexus with the interest income taxed at the flat rate of 25% are not deductible. Special rules apply for bonds that have not been legally and factually offered to an indefinite number of persons. Here, the investment income will in no case be subject to a withholding tax, but will always have to be included in the income tax return (marginal rate of up to 50%). Certain restrictions apply regarding the offsetting of losses.

Corporations subject to unlimited corporate income tax liability in Austria are subject to corporate income tax on all investment income resulting from Notes at a rate of 25%. In case of investment income with an Austrian nexus (as described above) the income is subject to a withholding tax of 25%, which can be credited against the corporate income tax liability. However, under the conditions set forth in sec. 94(5) of the Austrian Income Tax Act no withholding tax is levied in the first place.

Private foundations pursuant to the Austrian Private Foundations Act fulfilling the prerequisites contained in sec. 13(6) of the Austrian Corporate Income Tax Act and holding Notes as a non-business asset are subject to interim taxation at a rate of 25% on interest income, income from realised increases in value and income from derivatives. Expenses having a nexus with the interest income taxed at the flat rate of 25% are not deductible. According to the wording of the statute, interest income from bonds that have not been legally and factually offered to an indefinite number of persons is not subject to interim taxation but rather to corporate income tax at a rate of 25%. In case of investment income with an Austrian nexus (as described above) the income is subject to a withholding tax of 25%, which can be credited against the tax falling due. Under the conditions set forth in sec. 94(12) of the Austrian Income Tax Act no withholding tax is levied.

### ***EU withholding tax***

Sec. 1 of the Austrian EU Withholding Tax Act (*EU-Quellensteuergesetz*) – which transforms into national law the provisions of Council Directive 2003/48/EC of 3 June 2003 on taxation of savings income in the form of interest payments – provides that interest payments paid or credited by an Austrian paying agent to a beneficial owner who is an individual resident in another Member State (or in certain dependant or associated territories) is subject to a withholding tax if no exception from such withholding applies. Sec. 10 of the Austrian EU Withholding Tax Act provides for an exemption from withholding tax where the beneficial owner presents to the paying agent a certificate drawn up in his/her name by the competent authority of his/her Member State of residence for tax purposes, indicating the name, address and tax or other identification number or, failing such, the date and place of birth of the beneficial owner, the name and address of the paying agent, and the account number of the beneficial owner or, where there is none, the identification of the security; such certificate

shall be valid for a period not exceeding three years. Currently, the withholding rate amounts to 20%. As of 1 July 2011 it will be increased to 35%.

Regarding the issue of whether also index certificates are subject to the EU withholding tax, the Austrian tax authorities distinguish between index certificates with and without a capital guarantee, a capital guarantee being the promise of repayment of a minimum amount of the capital invested or the promise of the payment of interest. The exact tax treatment of index certificates furthermore depends on their underlying.

### ***Austrian inheritance and gift tax***

Austria does not levy an inheritance and gift tax anymore.

However, it should be noted that certain gratuitous transfers of assets to (Austrian or foreign) private law foundations and comparable legal estates (*privatrechtliche Stiftungen und damit vergleichbare Vermögensmassen*) are subject to foundation tax (*Stiftungseingangssteuer*) pursuant to the Austrian Foundation Tax Act (*Stiftungseingangssteuergesetz*). Such tax is triggered if the transferor and/or the transferee at the time of transfer have a domicile, their habitual abode, their legal seat or their place of effective management in Austria. Certain exemptions apply in case of a transfer *mortis causa*, in particular for bank deposits, publicly placed bonds and portfolio shares (i.e., less than 1%). The tax basis is the fair market value of the assets transferred minus any debts, calculated at the time of transfer. The tax rate is in general 2.5%, with a higher rate of 25% applying in special cases.

In addition, a special notification obligation exists for gifts of money, receivables, shares in corporations, participations in partnerships, businesses, movable tangible assets and intangibles. The notification obligation applies if the donor and/or the donee have a domicile, their habitual abode, their legal seat or their place of effective management in Austria. Not all gifts are covered by the notification obligation: In case of gifts to certain related parties, a threshold of EUR 50,000 per year applies; in all other cases, a notification is obligatory if the value of gifts made exceeds an amount of EUR 15,000 during a period of five years. Furthermore, gratuitous transfers to foundations falling under the Austrian Foundation Tax Act described above are also exempt from the notification obligation. Intentional violation of the notification obligation may lead to the levying of fines of up to 10% of the fair market value of the assets transferred."

## **RESPONSIBILITY STATEMENT OF ERSTE GROUP BANK AG**

Erste Group Bank AG, with its registered office at Graben 21, A-1010 Vienna, Austria, is solely responsible for the information given in this Supplement.

The Issuer hereby declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Supplement is, to the best of the knowledge of the Issuer, in accordance with the facts and contains no omission likely to affect its import.