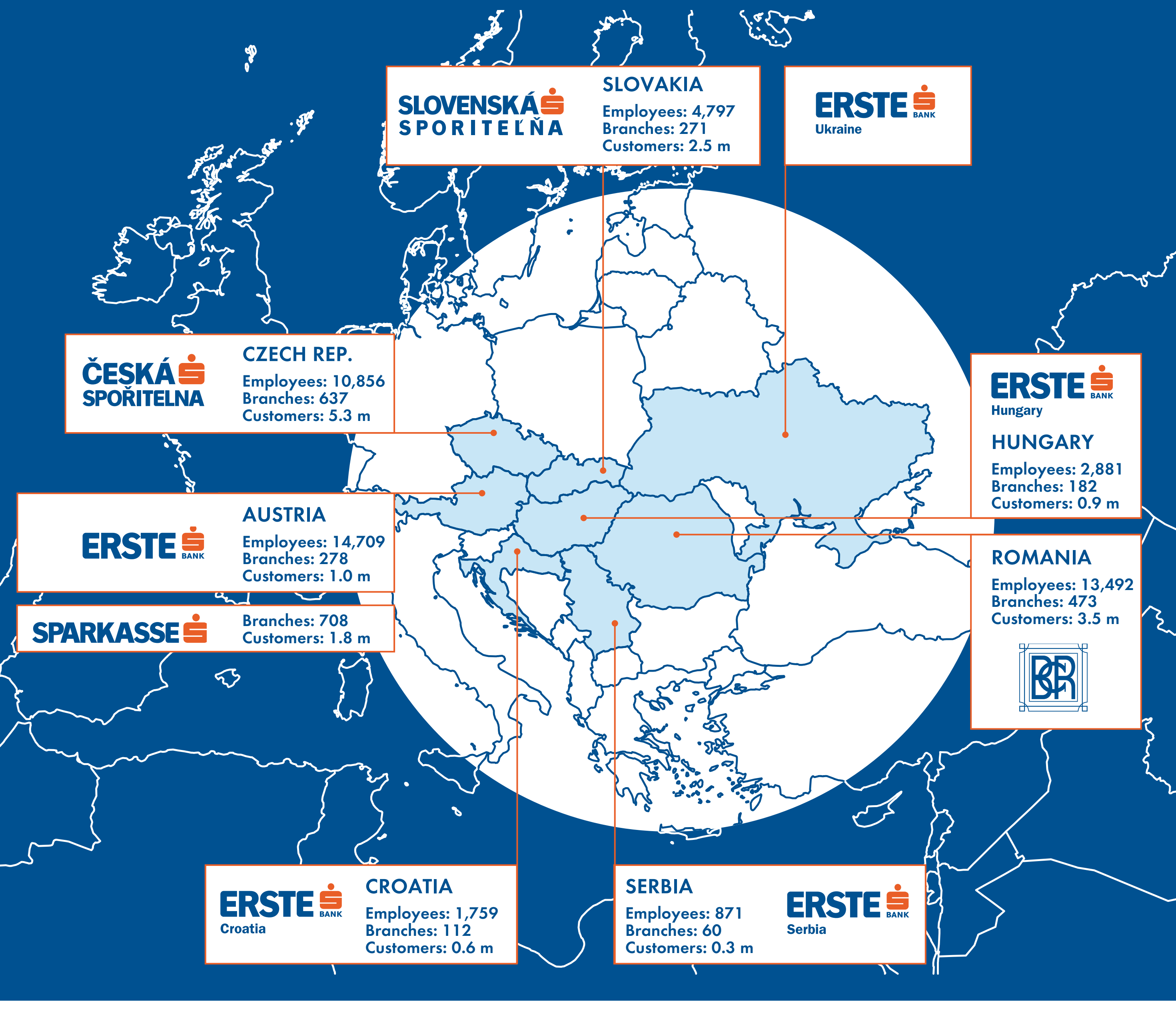
ERSTE BANK

ERSTE BANK

The Bank for Central and Eastern Europe

Annual Report 2006

Extensive presence in Central and Eastern Europe

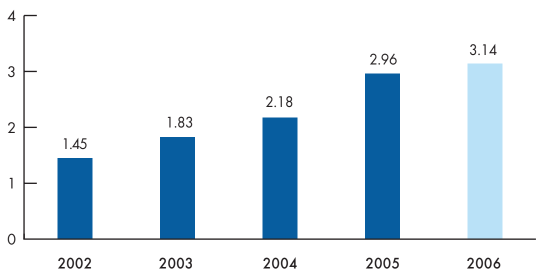


Key financial and operating data*

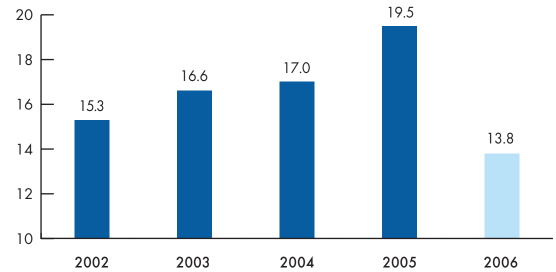
EUR million (unless otherwise stated)	2002	2003	2004	2005	2006
BALANCE SHEET					
Total assets	**121,222**	**128,575**	**139,812**	**152,681**	**181,703**
Loans and advances to credit institutions	15,492	13,140	15,684	16,858	16,616
Loans and advances to customers	64,435	67,766	72,843	80,419	97,107
Risk provisions for loans and advances	(2,983)	(2,772)	(2,804)	(2,817)	(3,133)
Securities and other financial assets	27,217	32,873	35,071	39,455	42,497
Other assets	17,061	17,568	19,018	18,766	28,616
Total liabilities and equity	**121,222**	**128,575**	**139,812**	**152,681**	**181,703**
Amounts owed to credit institutions	26,425	25,704	28,551	33,911	37,688
Amounts owed to customers	61,308	64,839	68,213	72,793	90,849
Debts evidenced by certificates, including subordinated capital	17,577	20,482	23,416	25,581	27,024
Other liabilities, provisions	10,708	11,880	13,679	14,017	15,238
Shareholder's equity	2,481	2,791	3,424	4,065	7,979
Minority interests	2,723	2,879	2,529	2,314	2,925
Changes in total qualifying capital					
Risk-weighted assets pursuant to section 22 Austrian Banking Act	60,257	62,188	65,384	75,078	94,129
Qualifying consolidated capital pursuant to sections 23 & 34 Austrian Banking Act	6,983	7,009	7,286	8,611	10,111
Core capital (Tier 1)	3,800	3,912	4,377	5,112	6,185
Hybrid capital	469	605	711	900	1,250
Solvency ratio pursuant to section 22 Austrian Banking Act	11.0%	10.7%	10.7%	11.0%	10.3%
Tier 1 ratio	6.3%	6.3%	6.7%	6.8%	6.6%
Income statement					
Net interest income	2,463.0	2,586.8	2,660.3	2,794.2	3,189.3
Risk provisions for loans and advances	(406.4)	(406.4)	(406.2)	(421.6)	(439.1)
Net commission income	944.3	996.6	1,135.4	1,256.8	1,445.9
Net trading result	167.4	214.6	216.5	241.7	277.9
General administrative expenses	(2,432.0)	(2,460.8)	(2,594.9)	(2,670.0)	(2,945.3)
Operating result	1,151.2	1,370.1	1,454.1	1,659.4	2,003.6
Pre-tax profit	664.6	761.6	996.6	1,221.7	1,522.2
Net profit after minorities	255.2	353.3	520.8	716.7	932.2
Operating data					
Number of employees	36,923	37,830	35,862	36,150	50,164
Number of branches	2,285	2,370	2,242	2,283	2,721
Number of customers (million)	10.6	11.9	11.9	12.4	15.9
Share price and key ratios					
High (EUR)	21.46	24.55	39.80	47.50	59.00
Low (EUR)	13.25	14.61	24.78	36.36	40.40
Closing price (EUR)	16.04	24.49	39.30	47.05	58.10
Price/earnings ratio	15.0	16.6	18.2	16.0	19.7
Dividend per share (EUR)	0.31	0.38	0.50	0.55	0.65
Payout ratio	29.1%	25.8%	23.2%	18.7%	22.0%
Dividend yield	1.9%	1.6%	1.3%	1.2%	1.1%
Book value per share (EUR)	10.4	11.6	14.3	17.1	25.6
Price/book ratio	1.5	2.1	2.7	2.8	2.3
Total shareholder return (TSR)	9.5%	54.6%	62.0%	21.0%	24.7%
Average TSR (since 1997 IPO)	9.2%	15.7%	21.5%	21.4%	21.8%
Number of shares					
Number of shares outstanding	239,300,456	239,775,232	241,442,892	243,183,600	315,296,185
Average number of shares outstanding	215,769,476	237,845,836	238,576,585	240,145,648	300,272,502
Market capitalisation (EUR billion)	3.8	5.9	9.5	11.4	18.3
Trading volume (EUR billion)	2.9	2.0	2.7	4.3	8.4

*) 2005 figures restated pursuant to revised IAS 19 and in preparation for application of IFRS 7 starting 1 January 2007.
Details on these changes as well as information on the new equity allocation were provided in a press release published on 30 January 2007 (www.erstebank.com/investorrelations).
Share price data adjusted for 4:1 share split of 8 July 2004.
Dividend quoted for 2006 is proposal to annual general meeting.
Shares outstanding include Erste Bank shares held by savings banks that are members of the Haftungsverbund (cross-guarantee system).
Trading volume as reported by Vienna Stock Exchange, based on single counting.

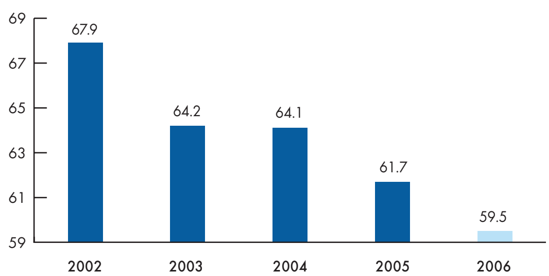
Cash earnings per share
in EUR



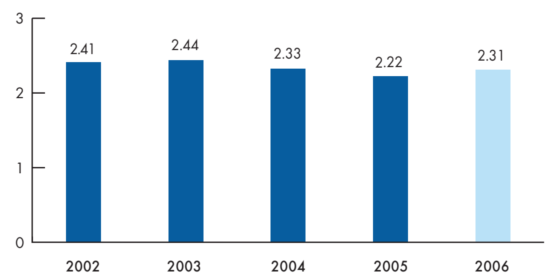
Cash return on equity
in %



Cost/income ratio
in %

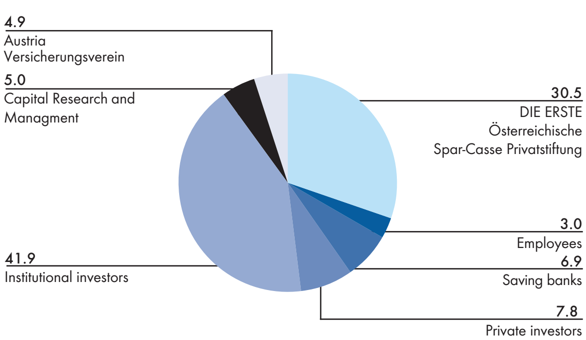


Net interest margin[1]
in %

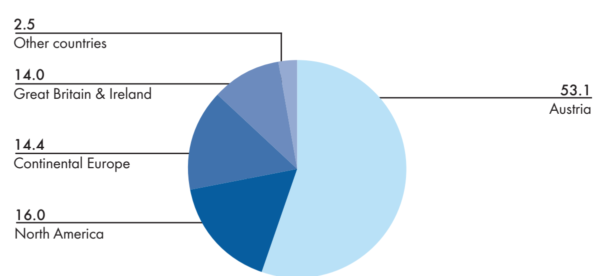


[1] Calculation based on average interest-bearing assets.

Shareholder structure at 31 December 2006
by investor, in %



Shareholder structure at 31 December 2006
by region, in %



INVESTOR RELATIONS

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Ratings

Fitch	
Long-term	A
Short-term	F1
Individual	B/C
Moody's Investors Service	
Long-term	A1
Short-term	P-1
Bank Financial Strength Rating	C+
Standard & Poor's	
Short-term	A-1
Long-term	A

Highlights

CEE continues to catch up
_Fast economic growth in the entire region
_Strong advances in retail and SME lending in all markets

Acquisition in the Ukraine
_Bank Prestige serves as foothold for further expansion
_Branch network to be expanded to 400 by 2009

Czech Republic sets records
_GDP grows above 6% for the second year running
_Housing loans are the major growth driver

Austria contributes strongly
_Market position in wealth management maintained
_Strong deposit and building society business

BCR integration launched
_Adoption of group standards under way
_Profit growth of 40% (on EUR-basis) planned annually

New group structure
_Implementation of future-proof governance model
_Spin-off of Austrian core customer business into new entity

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Letter from the CEO

Dear shareholders,

I am pleased to report our ninth consecutive record results to you. Net profit reached EUR 932 million, up 30% on the previous year, while the cost/income ratio improved to below 60% for the first time ever. Risk costs also remained firmly under control. Our success is a reflection of our strategy to expand into markets that benefit from a long-term growth trend. A case in point is the addition of the Ukraine to our portfolio of countries in Central and Eastern Europe. During 2006 we also completed the acquisition of Banca Comercială Română, Romania's largest bank; and, we embarked on the implementation of a streamlined group structure that will ensure further operating efficiencies and increased strategic flexibility.

Our home market continues to grow

The main highlight of 2006 was the successful completion of the acquisition of Banca Comercială Română (BCR) following some delays, and the kick-off of a far-reaching integration and development programme scheduled to be completed by early 2008. We also appointed new board members and set an ambitious financial target of 40% annual average net profit growth to 2009 for BCR. We believe that the timely EU accession will accelerate the progression on the economic convergence path and hence fully support our aspirations in Romania.

Another key achievement was the eastward extension of our home market into the Ukraine, the most populous country in Central and Eastern Europe, bar Russia. In Bank Prestige, we effectively acquired a start-up operation that will be the base for our market developments efforts. We are now present in almost all major markets of Central and Eastern Europe. Our home market covers a coherent region of 120 million people, 15.9 million of which are already our clients. Some 80% of our customers live in high growth markets of the European Union. While we have achieved excellent coverage we will continue to selectively evaluate opportunities across the entire CEE region.

In doing so, we will continue to focus on striking the right balance between integration of newly acquired assets, further expansion and growth, risk mitigation and value creation. We will employ a flexible approach, though, when deciding the market entry strategy or the target geography within Central and Eastern Europe. In riskier markets we will apply innovative entry strategies and limit our investments to levels that allow us to fully capture the opportunity, whilst restricting our downside, as was the case in the Ukraine and Serbia. In less risky markets, such as Romania, we will commit substantial resources. In markets where we already have a presence, we will consider bolt-on acquisitions. Irrespective of the timing and size of our next expansion step, we will build on our successful track record by adhering to our long-established financial acquisition criteria.

Vibrant economies underpin business growth

The common feature in most of our markets was the further acceleration of the economic expansion in 2006. This paved the way for continued strong loan growth, especially in the retail segment. Within retail loans, mortgages remained the major growth driver.

Our Austrian retail business enjoyed a solid year, on the back of the strongest economic growth in six years. While profit growth was slower than in the past year, this was mainly due to the base effect and a more volatile stock market. All in all, the Austrian retail business continued to make a valuable contribution to the group and is expected to do so in the future.

In the Czech Republic our operating performance accelerated to a new high but did not fully feed through to the bottom line, primarily due to the resumption of normal provisioning in 2006, after years of general reserve releases. The economy repeated its record performance of 2005 and so fuelled strong growth of the banking market. Mortgage loans were the major growth driver. The outlook for 2007 remains very positive, all the more as the the lack of any distorting effects will lead to an acceleration in net profit growth.

Our Slovak operation developed ahead of expectations in 2006. Another very strong showing of the economy and a strong sales performance were the key drivers. As a result, loan growth powered ahead at nearly the same rate as last year. This development came in very handy in light of the expiry of the final instalment of high-yield bonds received at the time of privatisation. With this drag on profitability removed, the outlook for our Slovak business is very bright.

While Hungary had to cope with mixed fortunes in 2006, Erste Bank Hungary delivered another good performance. The government introduced mostly revenue-side austerity measures to fight the spiralling budget deficit, including a hike in corporation tax and a special banks tax related to interest income from subsidised mortgages. Limited exposure to the latter and tighter cost control will underpin continued profit growth at Erste Bank Hungary in 2007.

Business in Croatia was influenced by the central bank's quest to restrict credit growth in general and foreign exchange lending in particular. While Erste Bank Croatia coped well under the circumstances by tapping into local funding sources and exercising a capital increase, increased profitability is very much dependent on future central bank policy. The integration of the recently announced acquisition of Diners Club Adriatic, the country's second largest credit card company, should yield some synergies that will support the bottom line.

Erste Bank Serbia also had to fight an uphill battle against restrictive central bank measures, especially in the area of retail loans. Nonetheless we achieved some key milestones on the road to profitability – the transformation is all but complete and the branch refurbishment programme is in full swing. As a result, we expect a strong improvement in profitability in 2007.

Prepared for the future

In late 2006 we took the strategic decision to enhance our group-wide efficiency effort, the New Group Architecture (NGA) initiative, through a more fundamental re-design of our group structure and governance model. Until now the NGA programme has focused on extracting synergies across our operating businesses within the historically grown governance framework; a framework that has increasingly demonstrated limits to scalability in the face of our rapid expansion into ever more central and east European markets.

Consequently, we have embarked on the implementation of a holding company comprising group centre functions, infrastructure and fully divisionalised business segments with a group-wide remit, but no longer the Austrian core customer business. The latter will be spun off into a separate subsidiary and enjoy the same status as our CEE operations currently do. For the management of the Austrian business this will remove the distraction of group topics, while the new group will be able to focus on strategic issues and pay equal attention to the performance of all businesses. The new structure will be rolled out in a two-stage process to a tight time schedule. In the first stage, to be completed by July 2007, all essential prerequisites for the new structure will be established within the existing legal entity, with the legal separation of the Austrian business from the holding functions due by July 2008. As a result of this bold move, group governance will become more efficient and we will be better equipped to face future expansion and business growth.

Our new structure will further strengthen the foundations of future net profit growth, which we expect to average more than 20% in the years to 2009. Indeed, following the acquisition of BCR we have raised our net profit growth guidance for 2007 to above 25%. In addition, we plan to push our cost/income ratio down to below 55% by 2009, while our return on equity should reach at least 18%–20% by 2009. These ambitious targets reflect our strong belief in the long-term growth path of our markets, in which 2006 was just another step and which will directly translate into superior long-term earnings power.

Our success in the past year would not have been possible without our committed employees, supportive investors and satisfied clients. Accordingly, I would like to take this opportunity to thank them, as well as fellow board member Christian Coreth who had to retire due to health reasons late last year. I am also extending our warmest welcome to our new Ukrainian colleagues, who, I am certain, will quickly become a force to be reckoned with in their local market.

Andreas Treichl

Management Board

ANDREAS TREICHL

Born in 1952
Appointed until June 2012

Chairman of the Management Board since July 1997
Group Communication, Group Human Resources, Corporate Strategic Development, Company Secretary, Internal Audit, Legal Services, Group Marketing, Investor Relations, Česká spořitelna

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

ELISABETH BLEYLEBEN-KOREN

Born in 1948
Appointed until June 2012

Deputy Chairwoman of the Management Board since May 1999
Savings banks, Private Banking & Asset Management, Product Management, Retail Customers Austria, SME Customers, Corporate Customers, Multi-Channel Management

She studied law in Vienna. She began her banking career with Creditanstalt-Bankverein in 1973 and joined Erste Bank in 1977. Member of the management board since 1997.

ERWIN ERASIM

Born in 1945
Appointed until June 2007

Member of the Management Board since January 2001
Payments & Settlement, Group Information Technology, Securities & Treasury Operations, Group Procurement

He worked for several Austrian banks before joining Erste Bank. Member of the management board since January 2001.

FRANZ HOCHSTRASSER

Born in 1963
Appointed until June 2012

Member of the Management Board since January 1999
Group Large Corporates, Group Treasury, Research

He studied business administration in Graz. In 1991 he joined GiroCredit and shortly after the merger with Erste Bank became member of the management board in January 1999.

BERNHARD SPALT

Born in 1968
Appointed until June 2012

Member of the Management Board since November 2006
Credit Restructuring, Credit Risk Management Austria, Strategic Risk Management, Credit Risk Management International

He studied law in Vienna. He joined Erste Bank in 1991 and after various management positions in Austria and the Czech Republic was appointed member of the management board in November 2006.

REINHARD ORTNER

Born in 1949
Appointed until June 2007

Member of the Management Board since July 1984
Group Accounting, Planning & Controlling, International Business, Management of Subsidiaries & Investments, Slovenská sporiteľňa, Erste Bank Hungary, Erste Bank Croatia, Erste Bank Serbia, Erste Bank Malta

He studied economics in Vienna. In 1971 he joined Erste Bank. After various management positions in accounting and controlling, member of the management board since July 1984.

Supervisory Board Report

Heinz Kessler, President of the Supervisory Board

Dear shareholders,

In the past financial year we fulfilled our responsibilities under the law and Erste Bank's articles of association. We regularly advised the management board on the governance of the group and monitored the management of Erste Bank. The management board provided us with regular, prompt, and comprehensive oral and written reports. At supervisory board meetings, management board members reported on the trends in their respective divisions. For some agenda items, experts were brought in to supply detailed information. Current individual subjects and decisions were discussed in meetings between the chief executive officer and the president of the supervisory board. In addition, we dealt intensively with the planned reorganisation of Erste Bank Group and with succession planning for Erste Bank's management board.

Supervisory board meetings

The supervisory board met seven times during the 2006 financial year. All members attended at least half of the meetings.

The following significant matters were discussed:

At the first meeting of the year, on 15 March 2006, we approved the audit reports, the 2005 company management report, the 2005 consolidated financial statements and 2005 group management report. In line with the recommendation of the audit committee, we approved the 2005 company financial statements. We also endorsed the proposal for the appropriation of net profit for 2005.

In addition, the supervisory board also discussed the corporate governance report, adopted the Employee Share Ownership Plan (ESOP) 2006 and aknowledged the agenda for the 2006 annual general meeting.

Several meetings discussed the situation at the CEE banking subsidiaries, especially in Romania and Serbia as well as plans to acquire Ukrainian Bank Prestige. In addition the acquisition of up to 8% of the shares of Banca Comercială Română (BCR) from the employees of BCR by way of a share swap and/or cash offer was approved.

At the meeting on 24 October 2006, Bernhard Spalt, head of strategic risk management, was appointed to the management board with effect from 1 November 2006. He succeeded Christian Coreth, who resigned from his management board position for health reasons. On behalf of the entire supervisory board, I would like to thank Mr. Coreth for his service and dedication to Erste Bank. At this meeting, plans for a new organisational structure involving the creation of a holding company were also discussed.

The last scheduled session of the financial year was held on 13 December 2006. The planned new organisational structure was once again considered in depth. Eventually it was decided to put the organisational framework for the creation of an operating holding company in place by mid-2007. In its final form, this entity is to hold all CEE banking interests and the stake in the soon-to-be-established "Austrian Erste Bank".

The terms of all management board members expire on 30 June 2007. For this reason, and in preparation for the coming new organisational structure, the supervisory board's meeting on 13 December 2006 dealt with succession planning for the management board. Reinhard Ortner and Erwin Erasim announced their intention to retire at the end of their terms on 30 June 2007.

At the proposal of the management board committee, the supervisory board has reappointed as management board members Andreas Treichl, Elisabeth Bleyleben-Koren, Franz Hochstrasser and Bernhard Spalt and newly appointed Thomas Uher, Peter Kisbenedek, Herbert Juranek and Peter Bosek to the management board for the term from 1 July 2007 to 30 June 2012. Andreas Treichl was again named chairman of the management board.

At the same meeting, the overall investment plan for 2007 was also approved.

Committees of the supervisory board

The management board committee has decided to pay the management board's annual bonuses according to the agreed parameters. The committee deliberated thoroughly on the succession plan for the management board of Erste Bank and prepared a proposal on the composition of the management board as of 1 July 2007 for the supervisory board.

The audit committee held the final audit meeting on 15 March 2006. At this session the company's financial statements and management report and the consolidated financial statements and group management report were discussed; the ratification of the company financial statements was recommended to the supervisory board and the proposal for the appropriation of net profit was received. A proposal was also made to introduce a motion at the annual general meeting to appoint Ernst & Young Wirtschaftsprüfungsgesellschaft mbH as an additional auditor for the financial year 2007. The audit plan for 2006 was reported to the audit committee. At its meeting on 13 December 2006 the audit committee heard a report on the result of the preliminary audit and on the implementation of the Corporate Governance Code at Erste Bank.

The risk management committee held 24 sessions in 2006, dealing among other things with the introduction of Basel II, and the approval of significant commitments outside the scope of the management board's area of authority.

The strategy committee, in several meetings during the first quarter of 2006, took the operational decisions concerning the capital increase. This committee was briefed with the yearly report on the group's equity holdings. In the second half of the year, topics included the planned acquisition of Bank Prestige in the Ukraine and the new holding company structure.

Financial statements

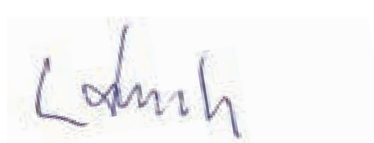
The company's financial statements and management report as well as the consolidated financial statements and group management report for 2006 were audited by, and received an unqualified opinion from, Sparkassen-Prüfungsverband as the legally mandated auditor and Deloitte Wirtschaftsprüfungs GmbH as the selected supplementary auditor. Representatives of both auditors participated in the supervisory board's financial statements review meeting and provided supporting information. We are in agreement with the results of these audits and the proposed appropriation of net profit. We approved the company financial statements prepared by the management board, which are thereby adopted in accordance with section 125 (2) of the Austrian Stock Corporation Act. The consolidated financial statements and group management report were also reviewed and approved.

Changes in memberships

Werner Hutschinski, who had sat on the supervisory board of Erste Bank since 1993, resigned on the day of the thirteenth annual general meeting with effect from 19 May 2006. Speaking on behalf of the entire supervisory board, I would like to thank him sincerely for his many years of dedicated service. The thirteenth annual general meeting elected Gabriele Zuna-Kratky to the supervisory board as a new member.

The supervisory board would like to take this opportunity to express its gratitude to the management board and the employees of Erste Bank for their strong personal commitment to their work in the last financial year.

For the Supervisory Board



Heinz Kessler
President of the Supervisory Board

Vienna, March 2007

Supervisory Board

HEINZ KESSLER
President of the Supervisory Board
Tenure: 26 May 1998 – AGM 2007
Retired Chief Executive Officer
Additional supervisory board memberships:
Deputy Chairman Austria Versicherungsverein auf Gegenseitigkeit Privatstiftung
Member DIE ERSTE österreichische Spar-Casse Privatstiftung
Deputy Chairman Duropack Aktiengesellschaft
Chairman Nettingsdorfer Papierfabrik Management AG
Deputy Chairman Rath Aktiengesellschaft
Chairman Reform-Werke Bauer & Co Gesellschaft m.b.H.
Chairman Reform-Werke Bauer & Co Holding Aktiengesellschaft
Deputy Chairman UNIQA Versicherungen AG
Functions in companies of the savings banks sector

GEORG WINCKLER
First Vice President
Tenure: 27 April 1993 – AGM 2010
Rector of the Unversity of Vienna
Professor of Economics at the University of Vienna
Additional supervisory board memberships:
Member
Austria Versicherungsverein auf Gegenseitigkeit Privatstiftung
Deputy Chairman
INiTS Universitäres Gründerservice Wien GmbH
Member Innovationszentrum Universität Wien GmbH
Member UNIQA Versicherungen AG
Functions in companies of the savings banks sector

THERESA JORDIS
Second Vice President
Tenure: 26 May 1998 – AGM 2008
Attorney at law
Additional supervisory board memberships:
Member Generali Holding Vienna AG
Chairwoman Miba Aktiengesellschaft
Chairwoman Mitterbauer Beteiligungs-Aktiengesellschaft
Chairwoman Prinzhorn Holding GmbH
Chairwoman Wolford Aktiengesellschaft

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

ELISABETH GÜRTLER
Tenure: 26 May 1998 – AGM 2010
Businesswoman
Member of the
Management Board of the Austrian Hotel Association
Member of the
General Coucil of Oesterreichische Nationalbank

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

WERNER HUTSCHINSKI
Tenure: until 19 May 2006
Retired General Manager
Additional supervisory board memberships:
Deputy Chairman VAV Versicherungs-Aktiengesellschaft
Functions in companies of the savings banks sector

JOSEF KASSLER
Tenure: 11 May 2000 – AGM 2007
Retired Chief Executive Officer
Additional supervisory board memberships:
Member „Messe Center Graz" Betriebsgesellschaft m.b.H.
Member ÖWGES Gemeinnützige Wohnbaugesellschaft m.b.H.

LARS-OLOF ÖDLUND
Tenure: 7 May 2002 – AGM 2007
Advisor
Additional supervisory board memberships:
Chairman Baltic Rim Fund
Chairman EntreprenadMaskinSpecialisten i Sthlm AB
Chairman Eurotema AB
Chairman e Builder AB
Chairman Litorina Capital Management AB
Chairman Scandi Tech Holding AB

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

FRIEDRICH RÖDLER
Tenure: 4 May 2004 – AGM 2009
Public Accountant and Tax Consultant

HUBERT SINGER
Tenure: 11 May 2000 – AGM 2008
Chief Executive Officer of Dornbirner Sparkasse Bank AG
Additional supervisory board memberships:
Deputy Chairman Dornbirner Seilbahn Gesellschaft m.b.H.
Functions in companies of the savings banks sector

GABRIELE ZUNA-KRATKY
Tenure: 19 May 2006 – AGM 2011
Director of Technisches Museum Wien
Additional supervisory board memberships:
Member Museumsquartier-Errichtungs- und
Betriebsgesellschaft mit beschränkter Haftung

Representatives of the Staff Council:

GÜNTER BENISCHEK
Chairman of the Central Staff Council
Additional supervisory board memberships:
Member DIE ERSTE österreichische Spar-Casse Privatstiftung

ERIKA HEGMALA
Vice Chairwoman of the Central Staff Council
Additional supervisory board memberships:
Member VBV-Pensionskasse Aktiengesellschaft

ILSE FETIK
Member of the Central Staff Council

JOACHIM HÄRTEL
Member of the Central Staff Council

CHRISTIAN HAVELKA
Member of the Central Staff Council

ANTON JANKU
Member of the Central Staff Council

Corporate Governance

MAIN PRINCIPLES

The Austrian Code of Corporate Governance

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

The Austrian Working Group for Corporate Governance amended the code in 2005, adopting the core of the EU recommendations on supervisory boards' responsibilities and management compensation and making the necessary adjustments to reflect the Company Law Amendment Act of 2005. The amended version of the Austrian Code of Corporate Governance applies to all financial years beginning on or after 1 January 2006.

Clear commitment and external evaluation

In the 2006 financial year, Erste Bank complied with all legal requirements ("L rules") and recommendations ("R rules") and almost all "comply-or-explain" provisions ("C rules"). The exceptions are described and explained on the website of Erste Bank at www.erstebank.com/investorrelations.

In the spring of 2006, Erste Bank voluntarily underwent an independent review of its compliance with the Code in the 2005 financial year. This review established that Erste Bank complies with sections 73–79 of the Code. The full findings of the review are available on Erste Bank's website at. www.erstebank.com/investorrelations.

One share – one vote

Erste Bank is listed on the stock exchanges in Vienna and Prague with 315.3 million ordinary shares outstanding at the end of 2006. There are no preferred shares and no restrictions on ordinary shares. In DIE ERSTE österreichische Spar-Casse Privatstiftung, Erste Bank has a principal shareholder with a long-term focus, who owned 30.5% of the outstanding share capital at the end of 2006. The only other shareholder owning more than 5% of the share capital since 18 March 2006 is Capital International. The shareholder structure is presented in the inside cover.

Compliance

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

Directors' dealings

In accordance with the Issuer Compliance Regulation of the Austrian Financial Market Authority (FMA), individual trades by members of the management board and supervisory board in shares of Erste Bank or in related securities are published on Erste Bank's website (www.erstebank.com/investorrelations) and the FMA.

Risk management

Erste Bank's approach to risk management seeks to achieve the best balance between risks and returns for earning a sustained high return on equity. A detailed report on risk policy, risk management strategy and organisation, as well as a thorough discussion of the individual risk categories, are found in the Notes beginning on page 134. In addition, credit risk is analysed in detail in a separate section from page 74 onwards, broken down by industry, geography and business segment.

MANAGEMENT BOARD

The management board of Erste Bank is responsible for managing the bank. It is responsible for pursuing the good of the company and considering the interests of the shareholders and staff. The management board develops the strategic direction for the company and coordinates it with the supervisory board. It safeguards effective risk management and risk control. The management board takes its decisions with due regard to all relevant laws, the articles of association and its terms of reference.

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

The group steering committee

In addition to the management board, Erste Bank has, since 2003, had a group steering committee (GSC). The GSC is the group's highest coordinating body. It consists of the management board of Erste Bank and the chief executive officers of Česká spořitelna, Slovenská sporiteľňa, BCR, Erste Bank Hungary and Erste Bank Croatia.

The GSC meets every six weeks. The two-day meetings address subjects and projects relevant to the group. The meetings are alternately held in Vienna and the central and east European subsidiaries. As the GSC has no formal decision-making powers, the decisions taken are implemented by resolutions of the local management boards.

Compensation of the management board

The total remuneration of the management board is aligned as closely as possible with the interests of shareholders and is described in detail in the Notes on page 105. It consists of a fixed base salary, a performance-related bonus, non-cash compensation and share options. Criteria for the management board's performance-related pay are return on equity and the amount of the dividend payout, based on share capital.

The bonus cannot exceed 117% of the annual gross salary and is paid out when the dividend payment surpasses 20% of the share capital and return on equity is at least 16%. Return on equity is also the key criterion for the exercise of share options. When a return on equity of at least 17% is achieved, the options awarded in the year under review may be exercised. In the financial year completed, the proportion of fixed to total cash compensation of the management board was 47.3%.

Moreover, the members of the management board participate in Erste Bank's defined contribution pension plan on the same basis as the other staff. Contributions are calibrated in a way that, assuming sufficient performance of the pension fund, an appropriate income level is assured upon retirement at age 65. If an individual's management board membership is ended before this date by no fault of his own, corresponding compensatory payments are made to the pension fund.

Likewise, for benefit entitlements of management board members in the event of loss of their position, the standard legal termination conditions of section 23 of the Salaried-Employees Act apply if the employment contract was concluded before 1 January 2003.

SUPERVISORY BOARD

The supervisory board advises the management board in its strategic planning and activities. It takes decisions identified for its attention by the law, the articles of association and the supervisory board's terms of reference. The supervisory board is charged with overseeing the management board in managing the enterprise.

The composition of the supervisory board, as well as the additional positions of its members, are presented beginning on page 8. Details on the supervisory board's compensation are found in the Notes on page 106.

Independence of the supervisory board members

The supervisory board of Erste Bank decided in March 2006 to implement the amended Austrian Code of Corporate Governance and, in this context, adopted the guidelines in Annex 1 of the Code as Erste Bank's criteria of independence. Based on these criteria, all members of the supervisory board have declared themselves independent.

Committees of the supervisory board

The supervisory board has formed a risk management committee, a strategy committee, an audit committee and a management board committee.

The risk management committee decides on credit facilities and significant commitments that fall outside the management board's powers of approval. Within the limits of the law and its own authority, the risk management committee may grant authorisations in advance. In addition, the committee also has the mandate of monitoring the risk management of Erste Bank. The risk management committee has the following members:

_Chairman: Friedrich RÖDLER
_Heinz KESSLER
_Georg WINCKLER
_Theresa JORDIS
_Bettina BREITENEDER
_Elisabeth GÜRTLER
_Joachim HÄRTEL
_Erika HEGMALA
_Anton JANKU
Substitute members: Jan HOMAN and Wilhelm RASINGER

In its role of overseeing the group's strategic direction, the strategy committee is responsible especially for scrutinising the budget; reviewing the reports on the individual business units and on business performance; determining investment policy, and setting key strategic goals for the company. The strategy committee is also responsible for overseeing Erste Bank's portfolio of strategic equity holdings. The strategy committee members are:

_Chairman: Heinz KESSLER
_Georg WINCKLER
_Theresa JORDIS
_Jan HOMAN
_Josef KASSLER
_Gabriele ZUNA-KRATKY
_Günter BENISCHEK
_Ilse FETIK
_Christian HAVELKA
Substitute member: Wilhelm RASINGER

The audit committee is primarily responsible for the auditing, and the preparation of the ratification, of the company's financial statements; for the preparation of the proposal for the appropriation of net profit and the company management report; for the auditing of the consolidated financial statements and group management report; and for proposing the choice of independent auditors to the supervisory board. The audit committee examines the audit plan from the internal audit department and receives information on the efficiency and effectiveness of the internal control system and internal auditing organisation and the proper functioning of the risk management system. The audit committee is composed as follows:

_Chairman: Heinz KESSLER
_Georg WINCKLER
_Theresa JORDIS
_Jan HOMAN
_Wilhelm RASINGER
_Friedrich RÖDLER
_Günter BENISCHEK
_Joachim HÄRTEL
_Erika HEGMALA
Substitute member: Bettina BREITENEDER

The management board committee deals with and decides upon the relationships between the Company and the members of the management board. The committee has the following members:

_Chairman: Heinz KESSLER
_Georg WINCKLER
_Theresa JORDIS

ACCOUNTING AND AUDITORS

Erste Bank's financial years from 1998 to 2006 were audited by Sparkassen-Prüfungsverband as the legally mandated auditor and Deloitte Wirtschaftsprüfungs GmbH, appointed by the annual general meeting as supplementary auditor. In view of international practice for public companies and after extensive deliberation, a proposal was put to the AGM in 2006 by the audit committee and supervisory board to appoint – alongside Sparkassen-Prüfungsverband as the legally mandated auditor – Ernst & Young Wirtschaftsprüfungsgesellschaft mbH as supplementary auditor for the auditing of the 2007 financial year's parent company financial statements and management report, consolidated financial statements and group management report. The AGM approved this motion on 19 May 2006.

Corporate Social Responsibility

INTRODUCTION

In 2006 Erste Bank continued to successfully balance the interests of its stakeholders. Acting in a socially responsible manner – a principle firmly entrenched ever since the bank's foundation in 1819 – remains integral to its corporate philosophy.

Just how deeply rooted this principle is, was evident in Erste Bank's winning the CSR AUSTRIA AWARD from the Center for Corporate Citizenship and the Federal Ministry of Social Security. Erste Bank ranked first among the 100 largest Austrian companies and thus once again demonstrated that its national leadership extends to practicing socially responsible corporate citizenship.

UPDATE – CSR PROGRAMME

Building on the steps taken in 2005, the aim of CSR reporting remains to expand the high degree of transparency reached in business matters to environmental and social subjects and thus document the progress made in CSR. The action plan presented in the 2005 annual report constitutes a multi-year plan. Some activities initiated in 2006, include:

_Greater collaboration with schools
_Customer satisfaction survey (published for the first time)
_Environmental audit, using the 2005 data which covers most of Erste Bank AG.

The group-wide survey of employee satisfaction planned for 2006 was postponed to autumn 2007 in order to include the effects of the change in group structure. Other activities, such as the integration of the CEE subsidiaries into the CSR process are part of the multi-year plan, which will form the basis for Erste Bank's CSR development process in the next several years.

CUSTOMERS

Client satisfaction is one of the critical success factors for Erste Bank. It is closely related to the development of relevant products, ongoing support in financial life-planning, and wellfocused education on handling money wisely.

Much of the work in 2006 was again addressed at youth. In addition to its role of educating and helping children with their entry into the financial dimension of life, Erste Bank also developed an appropriate product portfolio. Thus, a free current account was offered, without an overdraft facility, in order to make it more difficult for young people to spend beyond their means. A pilot project was also launched inviting teenagers to the bank for a week to jointly create a youth offering. The insights from this project underpin the planned further partnership with schools that is to pursue and refine the understanding of and provision for the needs of youth.

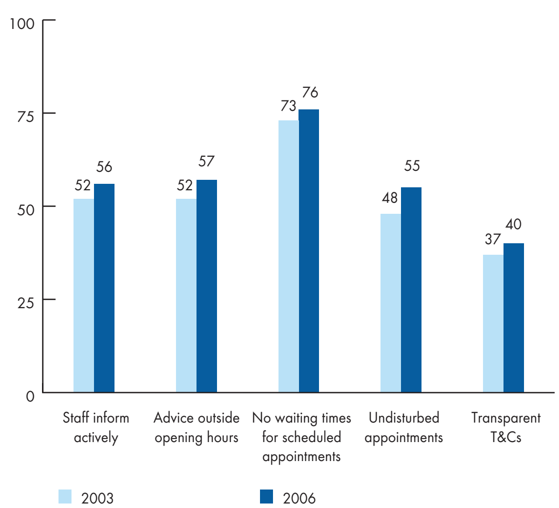
In the small and medium enterprise (SME) customer segment, Erste Bank last year continued its support for entrepreneurs. In an economy driven mainly by small and medium-sized companies, financing new business owners is a way of actively exercising social responsibility. Specifically, activities ranged from providing consultancy and continuing education via the "GO" academy for entrepreneurs all the way to holding business plan competitions.

A high level of customer benefit was stressed in product development in the personal banking area. The emphasis was placed on a further broadening of the long-term savings offering. In addition to working with Österreichisches Hilfswerk on events that raise awareness of this subject, the range of investment funds was expanded to include more ethical funds. A particularly innovative element is the partnership with the World Wildlife Fund in the ESPA WWF STOCK UMWELT fund. This mutual fund invests only in companies operating solely or predominantly in the environmental industry. Some of the earnings from the fund are used for the WWF's water protection programme in Austria. This does not reduce customer returns, as ERSTE-SPARINVEST waives some of its revenues in order to protect nature. Total assets under management in the group's ethical funds thus grew to EUR 1.3 billion by the end of 2006, representing 4.5% of total fund assets and a market share of more than 60% in the segment of environmental and ethical funds as a whole.

Erste Bank also participated in the distribution of a microfinance fund and developed ways of offering this investment product to ethically-minded retail clients in 2007.

An Austria-wide study conducted for the second time in the middle of 2006 documents that these specific measures – but also, and particularly, the consistently high quality of regular customer care – led to rising customer satisfaction in all categories. The findings of this survey are based on responses from about 15,000 retail customers. Overall satisfaction improved from 53% in 2003 to 55% in 2006. The chart below shows the improvement in selected individual areas:

Customer satisfaction by category in %



Regular customer satisfaction surveys are also performed by the subsidiaries in Central and Eastern Europe. There they constitute an important element in employee motivation and pay.

CIVIL SOCIETY

In 2006 Erste Bank continued to make a substantial contribution to the development of civil society, through the promotion of socially disadvantaged groups and a great many initiatives in education, the arts and sports. Most of these activities had a strong Central and Eastern European component and thus fostered understanding between and mutual integration of the cultures and countries in which Erste Bank operates.

The framework since 2004 for all social and cultural projects and activities has been "Kontakt. The Programme for Arts and Civil Society of Erste Bank Group". Every year, projects are launched under its umbrella to bring the people of the Central and Eastern European region closer together and work side by side on new ideas, perspectives and opportunities.

The most important pillar in the social action programme in 2006 was once again the continued longstanding partnership with Caritas. The partnership strives to soften the hardships of the economic transformation process in Central and Eastern Europe, particularly for the region's children. But in Austria as well, the fight against poverty was the top priority. Success stories of 2006 included the implementations of the following projects:

- Establishment of a therapeutic kindergarten and a special-education class in Romania. As a result of this work, 21 children with disabilities are now receiving appropriate support and care for the first time.
- Support for the "Menschen in Not" ("People in Need") campaign in Austria – with the aim of easing the suffering of almost half a million people at risk of sliding into poverty.
- Support for "youngCaritas.at", a youth platform that involves young people in Caritas services and enables them to gain hands-on experience in charitable work.

This is also the context for the establishment of "Die Zweite Wiener Vereins-Sparcasse" by Die erste österreichische Spar-Casse Privatstiftung, the foundation that is Erste Bank's largest shareholder. The new institution provides access to basic financial services for people who, for a wide variety of reasons, are no longer able to open a regular bank account. Through accounts without overdraft facilities, it helps its customers to get back on track. Zweite Sparcasse was developed by staff and specialists from Erste Bank on behalf of the foundation. It is operated in tandem with debt counselling organisations and Caritas by Erste Bank employees who volunteer their time.

In the world of the arts, Erste Bank continued the traditional support for a number of projects, such as:

- _VIENNAFAIR, the only fair for contemporary art from Central and Eastern Europe. The event attracted strong participation from twelve galleries in the region.
- _The regionally oriented Vienna Mozart Music Film Festival. Participating cities were Brno, Belgrade, Bucharest, Prague, Zagreb and Bratislava.
- _Partnership with Wiener Secession. The work with this renowned artist association and independent gallery both give rise to events and publications and, through tours, offers Erste Bank employees exposure to art.
- _"Kontakt." Establishment of a sophisticated collection of contemporary central and eastern European art. In 2006 this collection was presented for the first time in Vienna and Bratislava.

As to education, science and sports, in 2006 Erste Bank again encouraged research by medical practitioners with a prize of EUR 7,500. Together with the Vienna University of Economics & Business Administration and OMV, an executive MBA programme was established in Romania. 2006 again saw the awarding of scholarships, including one (together with the daily newspaper Die Presse) for a post-graduate degree in international tax law. Sports sponsorship activities last year remained focused on the school soccer and volleyball leagues as well as the role as principal sponsor of the ice hockey league.

STAFF

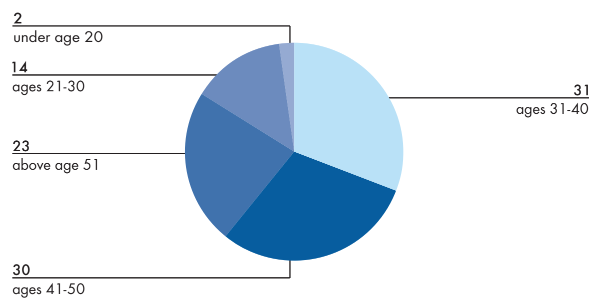
Erste Bank is one of the largest employers in Central and Eastern Europe. Through further expansion, particularly into Romania and also the Ukraine, the employee count rose in 2006 by more than one-third, from 36,150 to 50,164. As of end-2006, about 70% of staff are based outside Austria, with the largest concentrations in the Czech Republic and Romania.

Personnel strategy

The inclusion and consultation of employees forms an essential part of Erste Bank's corporate culture. This is manifested in large-scale staff surveys whose results are analysed by external consultants and are factored into the management's decisions. The latest such poll was conducted in the first half of 2003. Employee surveys are also carried out at the subsidiaries in Central and Eastern Europe. Another staff survey is to be conducted in the autumn of 2007 in close cooperation with the European Staff Council and will be the first to cover the whole group.

The high esteem in which Erste Bank holds its employees is expressed in the staff charter signed at the beginning of 2004. The charter documents the employee-friendly value system as well as the aims of management and staff. In addition, in order to keep pace with the changing market environment, the charter seeks to create a focus on collective productivity at Erste Bank. An evaluation of the staff charter, the findings of which will be reported in 2007, began in 2006.

Age structure in %



Within the specific strategic measures taken in 2006, the preparations for the expected future demographic changes remained a key focus. Given the rising average age of group staff, the LIFETIME project brought together the different activities in this area with the goal of offering appropriate development opportunities for all generations.

Other important strategic highlights in 2006 were the completion of the Top Executive Development (TED) programme and the continued highly successful practice of giving staff a share in profits.

LIFETIME accomplishments

On the path to the three-generation enterprise, results were achieved in the areas of health, corporate and leadership culture, training and young employees. The most important measures implemented in 2006 under the LIFETIME umbrella included:

- _Offer of computer skills training for people in the fifty-plus age group
- _Introduction of a new progressive retirement (partial pensions) model
- _Awareness of managers to problems related to alcohol abuse, mobbing, and burnout
- _More intensive work with schools in order to become more attractive to young job seekers
- _Heightened emphasis on personal development

Top Executive Development (TED) programme

The focus of the TED programme is on the development of future top managers. Periodically, from all managers in the group, individuals who seem likely candidates for top management positions are chosen to receive special opportunities for development. Over a period of between 12 and 14 months, the participants complete five to six modules of three to five days each. These develop and expand management and leadership abilities and foster networking across geographic and organisational boundaries.

The first group of 21 young managers from five countries graduated from the programme in 2006. Going forward, the TED approach will serve as a model for any additional programmes.

Staff profit-sharing

Employees share Erste Bank's financial success in three ways: through the Employee Share Ownership Plan, which enables the employees of Erste Bank to buy Erste Bank shares at a discount; the Management Share Option Plan designed to provide additional performance incentives for management and key employees; and an annual 2%-share of budgeted net income, additional to the base salary and individual performance-related bonus, which is paid to all employees except for top management of the group and its subsidiaries. In 2006 the total value of the latter item amounted to EUR 12.4 million.

Erste Bank continues to strengthen the third pillar of its compensation system to underline the importance of each and every staff member's contribution to the group's financial success. Erste Bank's profitability thus directly benefits all employees. This degree of profit-sharing with staff is unique in Central and Eastern Europe and achieves an equitable alignment of the interests of shareholders and employees.

Attractive employer

The attractiveness of Erste Bank as an employer manifest itself not only in the repeated distinctions won in this area, but above all in positive employee statistics. For example, based on the data for Austria, the number of sick days per employee, at 7.9 per year, was well below the industry average. In terms of staff turnover as well, 2006 was characterised by stability. From 4.5% in 2005, the percentage of departures in Austria rose only slightly to 4.8% in 2006.

Key indicators – Employees (Austria, without savings banks)

	2006	2005	2004
Fluctuation	4.8%	4.5%	4.6%
Sick days per year	7.9	8.2	8.0
Training days per year	2.6	2.6	2.8
Women in management positions	23.1%	24.3%	23.0%
Share of part-time staff	22.8%	23.4%	23.9%
Share of female part-time staff	86.4%	86.8%	85.8%

Corporate volunteering

Since the beginning of 2006, Erste Bank has been involved in an initiative known as "Vernetzte Welten", or Networked Worlds. Through this initiative, three projects were supported by Erste Bank last year; of these, two were successfully completed.

Erste Bank's contribution consists of the time of up to six of its employees made available for the project duration of three to six months – a form of support in kind. The participating NGO partner organisations (Caritas, Red Cross, SOS-Kinderdorf) offer the employees of Erste Bank an opportunity to accept time-limited responsibility for managing innovative projects in NGOs.

This allows staff members to gain an insight into and understanding of charitable organisations' work and motivation. In addition they can acquire new kinds of project management experience, strengthen mutual learning, make both substantive and personal connections, assume active social responsibility and improve their relationship skills.

ENVIRONMENT

Considerable headway was also made in environmental matters. In Austria, Erste Bank took part in the 2006 Ökoprofit project. As part of this undertaking, relevant environmental data was collected for 2005 and environmental protection measures were implemented and evaluated for 2006 and planned for 2007 and 2008.

Key indicators – environment*

	2005
Flight distance (km per employee)	938.0
CO_2 emmissions (tonnes per employee)	2.7
Water consumption (litres per employee)	15,586.0
Paper consumption (kg per employee)	55.9
Energy consumption (kWh per employee)	332.3
Waste (kg per employee)	279.5

*) Flight distance and CO_2 emmissions based on data of Erste Bank AG in Austria or 4,330 employees. Other data based on central office buildings of Erste Bank AG in Austria or 54,723 m² bzw. 2,360 employees.

Action taken in 2006 for the environment included the introduction of environmental controlling tools, establishment of a new energy-saving office lighting policy and development of a campaign to optimise waste management; the latter targets a reduction of residual waste by 50%.

As part of the Ökoprofit project, an environmental policy was drafted and is currently being coordinated with the management board. In addition, a legal database was established with an index of relevant environmental laws and regulations, and an analogous index of waste management laws was compiled.

Also as part of the Ökoprofit project, an environmental policy was drafted that is currently being coordinated with the management board. As well, a legal database was established with an index of relevant environmental laws and regulations, and an analogous index of waste management laws was compiled.

The progress on and experiences from these activities are regularly communicated to the subsidiaries in Central and Eastern Europe in order to raise awareness for environmental issues and encourage them to launch similar projects. In addition, future measures are planned based on European norms and directives with possible application considered even in non-EU countries.

Group-wide procurement

A procurement services company (s-proserv) was founded as a new centralised group unit for procurement and facility management, and is in operation since 1 January 2007. In addition to securing top service quality and optimum cost effectiveness, it will permit the establishment of a group-wide supply chain management, for which the ethical guidelines are already being developed.

Share price at record levels

Erste Bank share outperformed major indices in 2006

Performance Erste Bank Share in EUR

0.65 EUR dividend

Renewed dividend increase of 18%

Significant rise in payout ratio from 18.7% to 22%

Erste Bank Share

The Erste Bank share surpassed the previous year's performance with new all-time highs. In addition to the group's sustained earnings growth with another record profit, the main driver of the positive share price performance was the acquisition of Romania's Banca Comercială Română (BCR). Through continued expansion and the increase in the customer base to more than 15 million people, Erste Bank affirmed its leading role as a retail bank in Central and Eastern Europe.

PERFORMANCE OF EQUITY INDICES

International investors focused on interest rate policy

In the fourth year of the equity market boom underway since 2003, almost all major stock exchanges charted double-digit gains, with some indices reaching new five-year or even all-time highs. In the USA the Dow Jones Industrial Average climbed to a new record level, gaining 16.3%. The other most watched US indices, the S&P 500 and Nasdaq, rose by a respective 13.6% and 9.5% over the past year. While the European Eurotop 300 Index advanced by 16.3% compared to 2005, Spain's IBEX was up 31.8%, Germany's DAX Index added 22.0% and Austria's ATX gained 21.7%. The FTSE 100 in Britain rose by only 10.7% while the exchanges in Zurich, Paris, Rome and Amsterdam advanced at similar rates as the Eurotop 300 Index. By contrast, the performance of Japan's Nikkei Index, up 6.9%, was relatively disappointing. A record gain of 34.2% was posted by the Hang Seng Index in Hong Kong.

The dominant theme on stock markets last year was the interest rate policy of the central banks against the backdrop of continued rises in energy and raw material prices and their consequences for inflation and economic activity. In 2006 the European Central Bank raised its benchmark interest rate a total of six times to a year-end level of 3.5%. The U.S. Federal Reserve meanwhile, after 17 consecutive increases, has left its key rate unchanged at 5.25% since August 2006. The first three quarters of last year saw volatility as a result of negative influences, triggered by new record-high oil prices and uncertainty over the interest rate policies of the European and US central banks. However, these factors were more than offset by positive macroeconomic data and corporate news. Renewed stock market gains and new index highs followed from October onwards as declining oil prices and a very good reporting season outweighed a persistently strong euro. Both in the USA and Europe, corporate results for the third quarter were ahead of expectations. Signs of slowdown in economic growth in the USA and the resulting speculation of interest rate cuts by the Federal Reserve further boosted share prices.

Record sentiment towards banking sector

The DJ Euro Stoxx Bank Index continued its upward trend in 2006. The European banking index marked an all-time high of 446.9, gaining 22.5%. Strained sentiment associated with central bank interest rate policy was more than compensated by the positive impetus from better-than-expected financials in the first three quarters of 2006. Moreover, the European banking sector benefited from numerous bank mergers and takeover bids. Centre-stage were many acquisitions in Central and Eastern Europe as well as the largest transaction, the merger of Italy's Intesa with Sanpaolo IMI to become one of the ten largest banks in Europe.

ATX attains new historic highs

With a gain of 21.7% to 4,463.5, Austria's blue-chip index, the ATX, ended the year on a historic high. The domestic index thus outperformed its pan-European counterparts for the third year in succession, but could not quite match its own powerful advances of the previous two years, which saw annual gains of more than 50%. One of the principal reasons for Wiener Börse's performance advantage was the growth potential of many Austrian companies in Central and Eastern Europe. In addition, the Vienna stock exchange derived additional impetus from the record influx of capital from last year's total of six initial public offerings and the capital increases by already listed groups. On 19 February 2007 the ATX reached its record high to date of 4,611.8.

ERSTE BANK SHARE PERFORMANCE

Share price at record levels

In the year under review the Erste Bank share sustained its upward trend. With a share price of EUR 58.1 at the end of 2006, Erste Bank rose by 23.5%, outperforming both the ATX and the DJ Euro Stoxx Bank Index. Following the successful capital increase in January 2006, the share price reached new historic highs, but in the second quarter fell more sharply than the European banking index owing to declines on international exchanges and massive sell-offs in emerging markets. On 13 June 2006 the share registered its low for the year at EUR 40.4. This was followed by gains in the share price thanks to positive analyst commentary in the run-up to the 2006 Capital Markets Day held in early October in Bucharest. The reiteration of the growth targets, the completion of the BCR acquisition on 12 October 2006 and the positive feedback from analysts led to continuing significant gains. The highest closing price of 2006 was reached on 15 December, at EUR 59.0. The rising trend continued in the first two months of 2007, reaching a new historic high of EUR 60.99 on 2 February.

Trading volume and market capitalisation

Through the share price appreciation, the increase in the number of shares as a result of the capital increase carried out in January of last year and the employee share ownership and management stock option plans, both the trading volume and market capitalisation grew substantially. On average in 2006, about 703,339 Erste Bank shares were traded per day on the Vienna stock exchange. This represented an increase of more than 64% in daily turnover compared to the previous year. The trading volume on the Prague stock exchange (PSE), where Erste Bank has been listed since October 2002, rose by 18% from the previous year to about 180,421 shares per day. At the end of 2006, the market capitalisation of Erste Bank stood at a record level of EUR 18.3 billion, up from EUR 11.4 billion one year earlier.

Performance of the Erste Bank Share in comparison*

	Erste Bank Share	ATX	DJ Euro Stoxx Bank Index
Since IPO (Dec 1997)	424.2%	242.1%	–
Since SPO (Sept 2000)	394.5%	282.0%	27.1%
Since SPO (July 2002)	233.4%	266.0%	77.8%
2006	23.5%	21.7%	22.5%
Since SPO (Jan 2006)	29.1%	14.6%	17.9%

*) IPO...Initial Public Offering, SPO... Secondary Public Offering.

DIVIDEND POLICY & GROWTH TARGETS

Erste Bank is a rapidly growing group, which has completed a number of successful acquisitions in Central and Eastern Europe in recent years. In order to ensure sufficient resources for expansion in this region, the management board has chosen not to set a fixed payout ratio. Instead, when Erste Bank meets its financial targets, the annual dividend is increased by at least 10% compared to the year before. This ensures a Tier 1 capital ratio of approximately 6.5% to 7%. However, should the Tier 1 ratio rise to more than 7%, the dividend policy may be adjusted to increase the payment by well more than 10.0% compared to the year before.

Strong rise in payout ratio

A dividend of EUR 0.65 per share will be proposed to the Annual General Meeting on 31 May 2007. The renewed dividend increase of more than 18% and the vigorous growth in the number of shares outstanding as a result of the January 2006 capital increase lead to a significant rise in the payout ratio from 18.7% to 22.0%.

Attractive, long-term growth targets

Erste Bank offers investors long-term, steady growth prospects. The growth target for the years from 2006 to 2009 calls for an average annual increase of more than 20% in the group's net profit after minority interests. A cost/income ratio below 55% is targeted for 2009, with a return on equity of between 18% and 20%. In 2007, net profit after minority interests is to grow by at least 25%.

INVESTOR RELATIONS

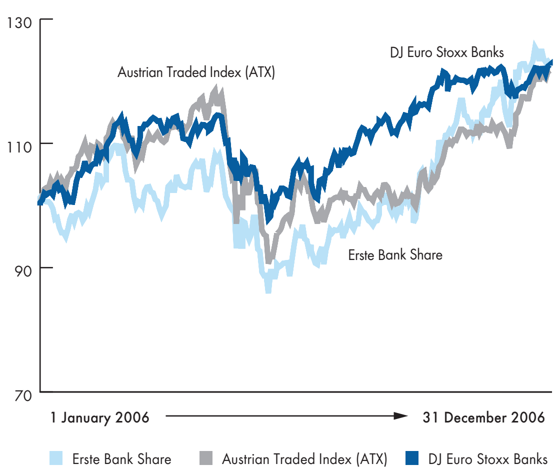
The investor relations activities in 2006 continued to focus on broadening the investor base and raising further awareness of the equity story of Erste Bank. The year's highlights were two 2-week road shows and the fourth international Capital Markets Day.

In January 2006 the management visited investors in the USA and Europe in connection with the highly successful capital increase for the acquisition of BCR that saw 64,848,960 new shares issued at an offering price of EUR 45. The regular autumn road show in November included financial centres in the USA, Europe and the Gulf region. These trips involved an average of 78 meetings in 16 cities.

On 9 October 2006, Erste Bank held its fourth international Capital Markets Day in Bucharest. A record audience of more than 70 institutional investors and analysts was thoroughly briefed by the management on the key topic, Banca Comercială Română (BCR). Other items on the agenda included updates on the developments and outlook in Erste Bank's markets and the progress of the New Group Architecture efficiency improvement programme. Avid interest was also shown in the live webcast of the Capital Markets Day on the Internet, with 820 downloads on the day of the event.

As in past years, the management met with large numbers of investors at numerous banking conferences at the invitation of major international investment banks such as HSBC, Société Générale, UBS, Citigroup, Goldman Sachs, Morgan Stanley, ING and Merrill Lynch. In addition, at joint road shows by Wiener Börse, Erste Bank and other Austrian banks held in London, Edinburgh, Geneva and Stockholm, Erste Bank presented its strategy and positioning and met with international investors individually.

Performance Erste Bank Share and major indices indexed



In total, the management and the IR team hosted 516 one-on-one and group meetings with international and local investors, as opposed to 289 in the year before. The strong increase is mainly explained by increased roadshow activity.

For the seventh consecutive year, Erste Bank hosted an internet chat forum on 18 April 2006 where current and prospective retail investors had the opportunity to communicate directly with Erste Bank Group's CEO, Andreas Treichl.

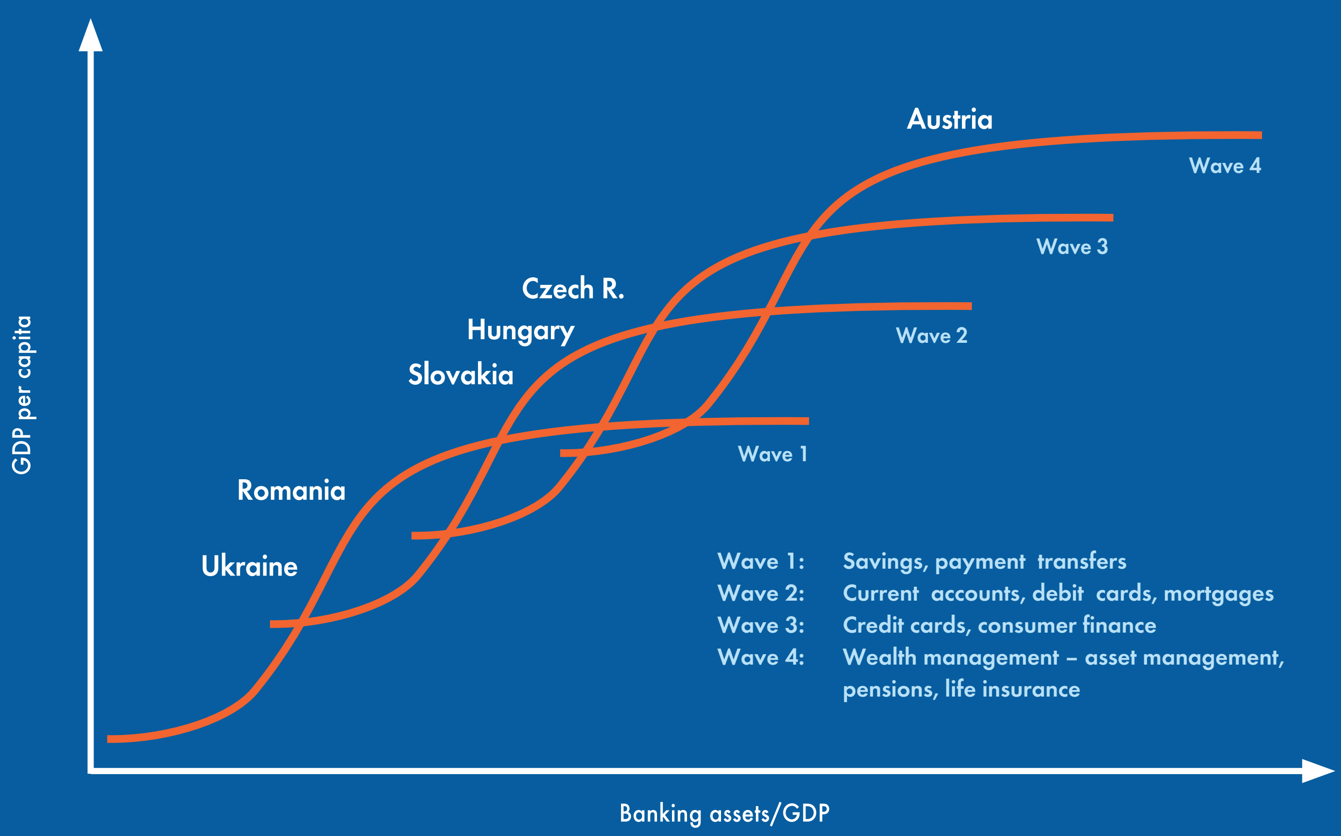
The sustained interest in the Erste Bank share was again reflected in the initiation of research coverage by several additional investment banks. In 2006 a total of 24 brokerage firms published research reports on Erste Bank.

Research reports on Erste Bank

_Bear Stearns
_CA IB
_Cazenove
_Citigroup
_CSFB
_Deutsche Bank
_Dresdner Kleinwort
_Execution
_Fox Pitt, Kelton
_Goldman Sachs
_HSBC
_ING
_JP Morgan
_KBC Securities
_Keefe, Bruyette &Woods
_Merrill Lynch
_Morgan Stanley
_Raiffeisen Centrobank
_Redburn
_Sal. Oppenheim
_Société Générale
_UBS
_WestLB
_Wood

Stable long-term growth

Our markets are at different stages of development



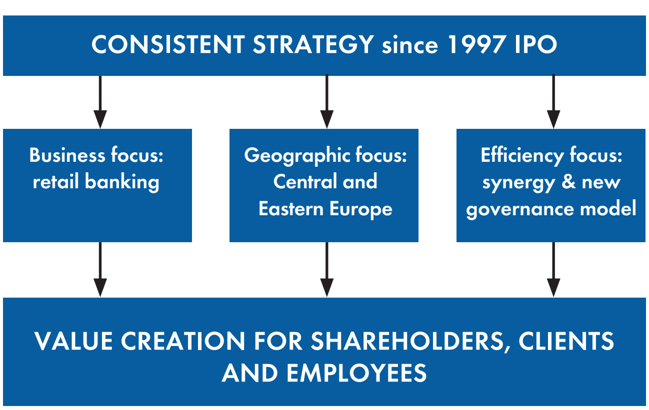
94% of our customers live in the European Union

Strategy

Another year of strategic consistency

In 2006 we continued to execute the strategy that served us well over the past years and that was first devised nearly 10 years ago. In essence, we stuck to our goal of expanding our retail banking and fund management businesses in an efficient manner within the confines of Central and Eastern Europe (CEE). 2006 provided further evidence that this is the right course of action: our markets advanced on a long-term growth path and we, as a key investor in the region, were one of the major beneficiaries of this secular trend. In addition, thanks to the fast pace of European integration, our risk-return profile continued to improve, with the vast majority of our clients now living in fast growing member states of the European Union.

Overall, our strategy rests on three pillars: the business focus pillar identifies the development of our retail and SME banking operations as our key acitivity, the geographic focus pillar defines Central and Eastern Europe as our home market and the efficiency focus pillar links the two pillars by setting out the vision of operating and expanding as efficiently as possible. In response to the fast development of the group we have added a new dimension to the latter in 2006: it now covers a fundamental redesign of our group governance model.



Business focus – retail banking

A clearly defined business focus lies at the core of Erste Bank's operations: we directly serve 15.9 million costumers in eight core markets and operate some 2,700 branches, as well as state-of-the-art alternative distribution channels, such as internet and phone banking. Hence, while we do have substantial operations outside retail banking, retail banking is our core competence.

In a way, retail banking is also woven into Erste Bank's genetic fabric. In 1819 wealthy Viennese citizens donated funds in order to establish Erste Bank's predecessor, a savings bank. They aimed to bring affordable banking services to wide sections of the population. This goal is just as valid today as it was some 190 years ago, especially against the backdrop of operating in Central and Eastern Europe.

In today's context, retail banking is attractive for us because it offers a compelling business case, comprehensive scope in terms of product offering and the opportunity to operate in well diversified markets.

The business case is characterised by a number of favourable parameters, one of which is the lower level of volatility than experienced in corporate or investment banking. Consequently, our earnings growth is strong and stable, our provisioning levels are almost unchanged over a number of years and our capital requirements are lower. Another positive factor is the longevity of our growth path, which is a result of operating in a portfolio of markets that are at different stages of economic development.

Austria is a mature and stable banking market, the Czech Republic, Hungary, Slovakia and Croatia are developing transformation economies, while Romania, Serbia and the Ukraine are emerging banking markets. This means that we can draw on our broad product knowledge in mature markets and selectively apply those retail banking products in less developed markets that are most suited to our clients' needs.

Geographic focus – Central and Eastern Europe

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

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

Our expansion into Central and Eastern Europe has yielded great benefits: shareholders have enjoyed sustainable earnings growth, customers can access our comprehensive range of services in more countries than ever before, and our employees have more development opportunities than at any time in the company's history. Consequently, we will continue on our proven growth path, extending our footprint in Central and Eastern Europe, when suitable opportunities arise.

Efficiency focus – enhanced governance meets synergy

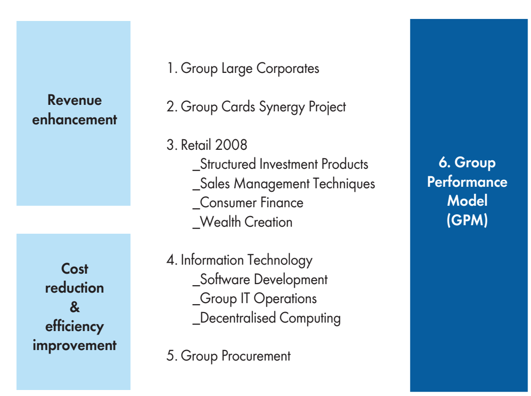
Our aim to work more efficiently across the group is a direct result of our rapid expansion as well as the realisation that a number of tasks are more efficiently carried out on a group-wide, standardised basis, while sales and marketing efforts are best handled locally. Or put differently, we aim to create a more successful banking group of what is already a successful group of banks. Until late 2006 this effort was encapsulated in the New Group Architecture (NGA) programme, our flagship efficiency initiative. While it comprises a clearly defined set of streams and extracts synergies from within the existing framework, it did not touch the core governance structure of the group. The further evolution of the group governance model was therefore the natural next step in order to ensure increased strategic flexibility and further efficiencies.

Consequently, in late 2006 we have embarked on the establishment of a holding company comprising group centre functions, infrastructure and fully divisionalised business segments, which will be managed on a group-wide basis, but no longer the Austrian core customer business. The latter will be spun off into a separate subsidiary, on a level playing field with our existing CEE operations. For the management of the Austrian business this will remove the distraction by group topics, while the new group board can focus on strategy and exert balanced attention to the performance of all businesses, group-wide business development topics and adopt a systematic approach to the building and development of key human resources.

The reorganisation follows a tight timetable and will reach key milestones in July 2007, when all essential prerequisites for the new structure will be established within the existing legal entity, and in July 2008, when the legal separation of the Austrian business from the holding functions will be accomplished. As a result of this bold move, group governance will become more efficient and we will be better equipped to face future expansion and business growth.

While starting the realignment of the group governance model was clearly the key event in terms of future efficieny, the New Group Architecture (NGA) programme, running in its third year in 2006, delivered the expected synergy effects. We also broadened the scope of the NGA initiative, by adding a stream on wealth creation, a key growth driver of the future. The remaining streams progressed as planned, as set out in the following paragraphs.

NGA aims to create synergies across the group



A unified, group-wide approach towards our large corporate customers is behind the establishment of the Group Large Corporates business unit. Through better integration of treasury, capital markets and other investment banking activities Erste Bank aims to become the partner of choice for all financing needs of our large corporate customers. The new business unit is well established and fully operational since 2006. The service for our target customers was significantly improved through an upgraded product and service portfolio as well as streamlined operations and processes.

The Group Cards Synergy Project concerns the bank card business, which is broadly defined to include debit cards, credit cards, charge cards and the installation of additional POS systems and ATMs. Our goal in the card business is to become the leading provider of debit, charge and credit cards as measured by card numbers and usage. Project outputs of 2006 included the set-up of a group-wide Card Coordination Team to coordinate local market approaches and harmonise group-wide card processing. In addition, we launched revolving credit cards in Slovakia and Austria and acquired an own Visa licence for direct issuing in Austria as well as Diners Club Croatia, the second largest credit card issuer of Croatia.

"Retail 2008" represents a package of knowledge sharing initiatives under a single umbrella aiming to spread best practices in retail banking across the group. The majority of the Group's Sales Management Techniques and Tools were rolled out in 2006 with very positive feedback from both branch-level users and customers. Furthermore, a new high-impact initiative called "Wealth Creation" was started in order to strengthen our product positioning, business activities, and performance in fee based products.

The main objectives of the Group Procurement project are the group-wide pooling of information on non-staff administrative expenses and investments, the bundling of procurement volumes, and identification of savings potentials through improved demand management and standardised specifications. Achievements of 2006 include the establishment of a group-wide procurement company under the name "s Procurement Services", being a shared service centre for procurement and facility management. Furthermore, we decided to outsource the procurement back-office functions, such as order management, accounts payable to Accenture Procurement Services.

The Information Technology project focuses on substantial cost reductions as well as efficiency improvements, especially through streamlined demand management, a uniform IT master plan, the bundling of software development functions, and a unification of desktop and decentralised equipment management. In 2006 key milestones were reached: a new group-wide company for IT operations that will focus on the consolidation of data and operations centres was founded; additionally, a target core banking system was selected and scheduled for step-wise implementation over the next years.

The Group Performance Model (GPM) is the strategic backbone of the NGA programme. It standardises financial, controlling and other definitions and processes needed to make all of our operating units comparable. More specifically, the GPM creates uniform standards for the recognition and allocation of costs and revenues and organises major performance indicators and controlling tools for benchmarking purposes. Accordingly, the enhanced transparency of performance measurement provided by the GPM acted as a catalyst for implementation of corresponding management structures, especially through a clear split of responsibilities between group centre functions and business, especially in Austria.

Overall, we are confident to achieve the expected financial target, a positive pre-tax contribution of EUR 270 million annually as of 2008, as communicated at the 2006 Capital Markets Day.

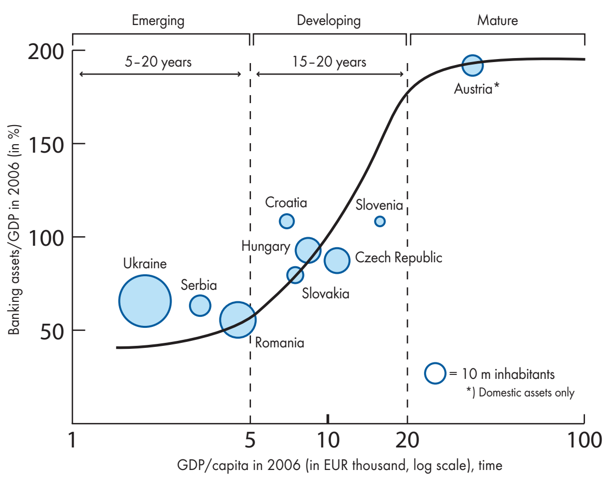
GROWTH DRIVERS

Our investors routinely ask us where future growth will come from. Since growth is not only an essential part of our equity story, but also of strategic importance to our business model we will briefly present long-term development patterns in our markets, as well as the three most important determinants of future growth: loan growth, wealth management and regional expansion.

Growth patterns

Our business model benefits from a unique growth profile that extends over the next 20–30 years and is tied to the economic catch-up process of Central and Eastern Europe. It derives its strength from the fact that our markets are at different stages of development. For this purpose we have classified our markets into three clusters: emerging, developing and mature markets, as shown in the chart below.

Banking development in transformation economies



Source: Local central banks, Eurostat, Erste Bank.

Emerging markets are characterised by a GDP/capita level of below EUR 5,000 and a banking asset penetration of some 50% or less. Depending on the economic position at the start of transformation, we estimate this period to take between 5–20 years. Within our business portfolio Erste Bank Serbia, Banca Comercială Română and Erste Bank Ukraine, our Serbian, Romanian and Ukrainian subsidiaries respectively, operate in such markets. At this stage of development growth is mostly derived from plain-vanilla banking products, such as savings, payments transfers as well as current accounts and debit cards. While household loans usually play an insignificant role at these levels of income, an increase in the banked population is typically a major source of growth.

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

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

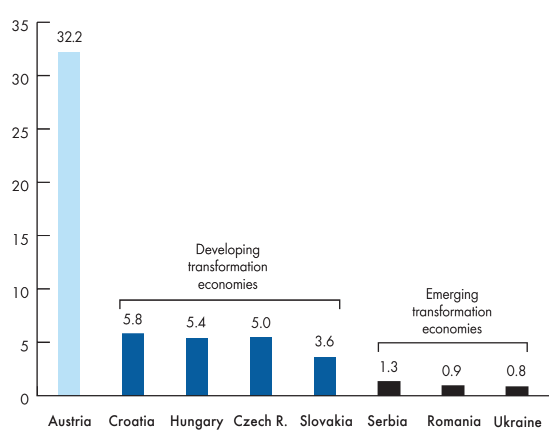
Loan growth

In many countries we operate in, retail lending was non-existent just a couple of years ago, firstly because nominal and real interest rates were high, secondly because disposable incomes did not support household credit growth and thirdly because of a lack of a healthy competitive environment due to high levels of state ownership. All this has changed over the past years: in developing transformation economies interest rates are in the process of convergence or have already converged, disposable incomes have risen strongly on the back of overall GDP growth, and most state banks have been sold to foreign strategic investors fostering product innovation and competition. This powerful combination underlies current growth trends and will fuel future growth.

To assess the maturity and hence the credit growth potential of banking markets such loan penetration measures, as customer loans/GDP, household loans/GDP and/or mortgages/GDP are commonly used. For countries with highly diverging levels of GDP/capita, though, this masks the true growth opportunity, as it discounts the impact of GDP growth itself. For instance, the assumption that developing transformation economies with customer loan penetrations of between 40% to 60% are already fairly developed and hence offer limited incremental growth opportunities compared to mature economies such as Austria, where domestic loan penetration is somewhat above 100%, are not factoring in that it is the GDP growth differential that is the major driving force behind the loan growth opportunity. As a result, we believe that absolute per capita figures offer a fairer reflection of the growth opportunity than relative measures.

The following chart shows the enormous gap that even today exists between mature and developing economies on the one hand and between developing and emerging economies on the other. Countries, such as Hungary and the Czech Republic, but also Croatia and Slovakia are many years away from reaching Austrian, let alone west European levels of loans per capita. This picture is even starker with the countries we entered in 2005 and 2006: Romania's, Serbia's or the Ukraine's levels of private sector indebtedness are bare-ly registering on the radar screen in the context of developed economies. Hence, we believe that credit expansion will be a secular growth trend, rather than a process that has already surpassed its peak.

Customer loans/capita in CEE (2006) in EUR thousand



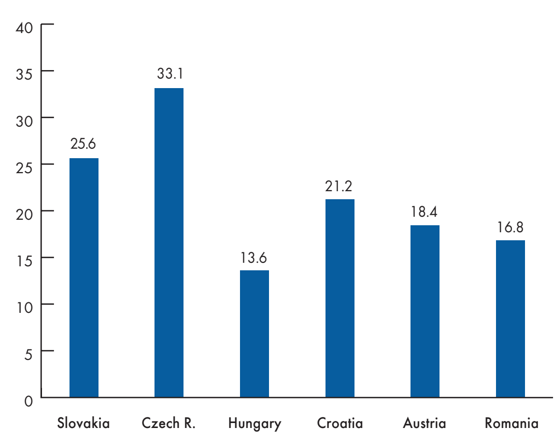
Source: Local central banks, Eurostat.

Within the overall loan growth trend, we will particularly benefit from our focus on the retail customer. Retail lending, particularly in the form of residential mortgages, has only just started in almost all our markets. A case in point is mortgage penetration: it equals about 12% of GDP in our most developed markets, while it is yet substantially lower in Romania, Serbia or the Ukraine. Even in Austria this measure only stands at 23%, leaving room for growth, while in the European Union it has reached an estimated 48% in 2006.

Wealth management

While private sector and especially retail credit expansion will be the growth engine of the immediate future, wealth management, which covers our private banking, fund management and life insurance business lines, will drive growth as our markets become wealthier. Irrespective of when this actually happens, we are already uniquely positioned to benefit from any such development: we dominate the fund management markets in our existing central and east European universe with a market share of 23% and we can draw on our experience in Austria, where we are leaders in retail funds and hold the No. 2 spot overall with a market share of 18%, as detailed below. In life insurance, we are among the leaders in Austria, while we have established strong footholds in all other markets.

Erste Bank fund management market shares (2006) in %

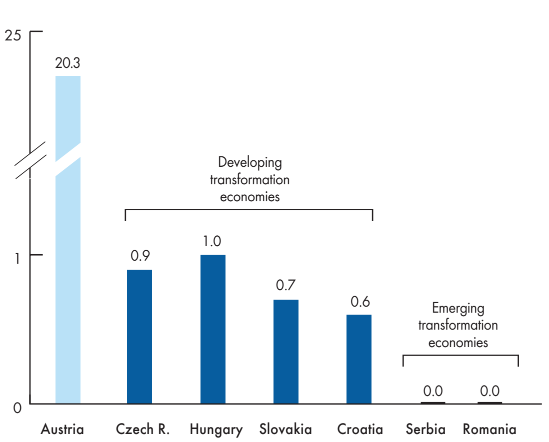


Source: Erste Sparinvest.

As pointed out, the growth dynamics in fund management differ fundamentally from those experienced in standard banking products, in so far as meaningful growth typically kicks in at a later stage of economic development. Based on historic trends in countries such as Spain or Austria, we estimate that growth in fund management reaches critical mass when nominal GDP/ capita hits the trigger point of about EUR 10,000. One of our most important markets, the Czech Republic has for the first time surpassed this level in 2006. Many of our other central and east European markets are quickly approaching this threshold. It is at this level that we believe basic consumption needs are satisfied and attention starts to shift towards providing for the future.

Accordingly, the divide in fund management between mature and developing markets on the one hand, and between developing and emerging transformation economies on the other is even starker than that experienced in the area of loans. As shown in the right-hand exhibit, funds under management per capita in Austria equalled EUR 20,300 at the end of 2006, while the same figure stood at about EUR 1,000 and EUR 900 in Hungary and the Czech Republic, respectively. In Romania the fund management market is in its very early stages of development. While growth reached nearly 100% in 2006, funds under management still only stood at a lowly EUR 187 million or at only EUR 9 per capita. At the end of 2006 Serbia still lacked the legal infrastructure for fund management and accordingly all the growth is still ahead.

Funds under management/capita in CEE (2006) in EUR thousand



Source: Local fund management associations, Eurostat.

The wealth management opportunity is best illustrated by a striking comparison. At the end of 2006 we managed assets of EUR 30.7 billion in Austria, a market of 8.3 million people. In our developed central and east European markets, covering the Czech Republic, Slovakia, Hungary and Croatia, which have a combined population of just over 30 million, the same figure stood at only EUR 6.2 billion. While assets in Austria grew at a rate of 10% in 2006, growth in the above-mentioned CEE markets registered 26%. In the past the growth differential was even more pronounced, leading to the conclusion that developing CEE funds under management could reach 50% of the Austrian levels inside ten years.

Regional expansion

Regional expansion was a major growth driver in the past and will continue to be a significant source of growth in the future. In this context, acquisitions play a major role in our business model. So far acquisitions were the preferred way by which we executed our central and east European expansion strategy. Since 1997 we have bought ten banks and invested about EUR 7 billion into Central and Eastern Europe, thereby actively contributing to the regeneration and redevelopment of the region.

In our acquisitions we adopt a flexible approach that strikes a measured balance between risk and return. In markets, where political and economic risks are higher, typically countries that have no immediate hope of joining the European Union, we will limit our investments to levels that minimise our downside, while at the same time allowing us to capture the opportunity. Points in case are our engagements in the Ukraine and Serbia. In the former we effectively entered the market through a greenfield operation, while in the latter we only established a regional, instead of a country-wide presence, reflecting our assessment of the market at the time. In countries that profit from speedy European integration, such as Romania, we will commit substantial resources.

Irrespective of the actual market entry strategy, when we buy a bank we adhere to a defined set of guiding principles. Firstly, within the EU we always aim to buy a bank with a leading market position or when this is not feasible an operation that we feel has a chance of reaching a market share of 15–20% in terms of clients and/or retail products, either through bolt-on acquisitions or organic growth. Outside the EU our operations should represent a solid base to achieve such a market share if we see fit. Secondly, any new bank has to fit the existing network and be beneficial to our clients. Thirdly, we will only acquire majority stakes in order to exert full management control. And last but not least, we stick to the following financial acquisition criteria:

_A return on equity of at least 20% by the third year following the year of closing of the acquisition. Historically we have always achieved this target.
_A return on investment of 10% by the third year following the year of closing of the acquisition. This measure is important to us because it includes the impact of goodwill. Historically we have achieved ROI figures in the range of 12%–15%.
_Achievement of earnings accretion by the third year following the year of closing of the acquisition.

What really sets our acquisition policy apart is our post deal integration expertise. The restructuring and integration process typically starts after the day of signing. A service agreement gives Erste Bank experts immediate access, so that they can familiarise themselves with day-to-day operations of the bank right away. Following closing of the transaction, a tried and tested transformation programme is put in place and executed by a multinational transformation team, led by a senior Erste Bank executive. It typically lasts no longer than 18 months and covers all material aspects of the business. In sensitive areas, such as risk management, existing staff are immediately assisted by Erste Bank staff in order to upgrade the function to group standards as quickly as feasible.

As a result of our highly developed regional expertise and our positive acquisition track record, we will continue to grow our regional franchise both through carefully selected acquisitions that fit the existing network, and organically.

Operating profit advances by 21%

in EUR million	2006	2005	Change
BALANCE SHEET			
Total assets	181,703	152,681	19.0%
Loans and advances to credit institutions	16,616	16,858	-1.4%
Loans and advances to customers	97,107	80,419	20.8%
Risk provisions for loans and advances	(3,133)	(2,817)	11.2%
Securities and other financial assets	42,497	39,455	7.7%
Other assets	28,616	18,766	52.5%
Total liabilities and equity	181,703	152,681	19.0%
Amounts owed to credit institutions	37,688	33,911	11.1%
Amounts owed to customers	90,849	72,793	24.8%
Debts evidenced by certificates, including subordinated capital	27,024	25,581	5.6%
Other liabilities, provisions	15,238	14,017	8.7%
Shareholder's equity	7,979	4,065	96.3%
Minority interests	2,925	2,314	26.4%
INCOME STATEMENT			
Net interest income	3,189.3	2,794.2	14.1%
Risk provisions for loans and advances	(439.1)	(421.6)	4.2%
Net commission income	1,445.9	1,256.8	15.0%
Net trading result	277.9	241.7	15.0%
General administrative expenses	(2,945.3)	(2,670.0)	10.3%
Operating result	2,003.6	1,659.4	20.7%
Pre-tax profit	1,522.2	1,221.7	24.6%
Net profit after minorities	932.2	716.7	30.1%

59.5% **Cost/income ratio**

below 60% for the first time ever

Management Report

SUMMARY OF ECONOMIC PERFORMANCE OF ERSTE BANK-GROUP IN 2006

General economic environment

In the year under review the general economic environment was primarily characterised by the interest rate policy of the central banks against the backdrop of further rises in energy and commodities prices and the resultant impact on inflation and economic growth.

Almost all the major international stock markets – Japan being the only exception – recorded double-digit growth.

The Austrian economy performed very positively in 2006. It remained on its growth track, exceeding Eurozone growth rates for the fifth year in succession. Real GDP growth for 2006 was an estimated 3.1%.

In Erste Bank's main central an east European markets (Czech Republic, Romania, Slovakia, Hungary and Croatia), however, growth rates were substantially higher, ranging from 4% to almost 8%. Apart from Hungary and Croatia, the local currencies also posted significant gains against the Euro.

The European Central Bank raised key rates a total of six times in the year under review to their current level of 3.5%. After 17 successive increases, the US Federal Reserve has not raised the US benchmark rate – currently 5.25% – since August. The central European countries saw divergent interest rate trends.

Erste Bank Group's performance

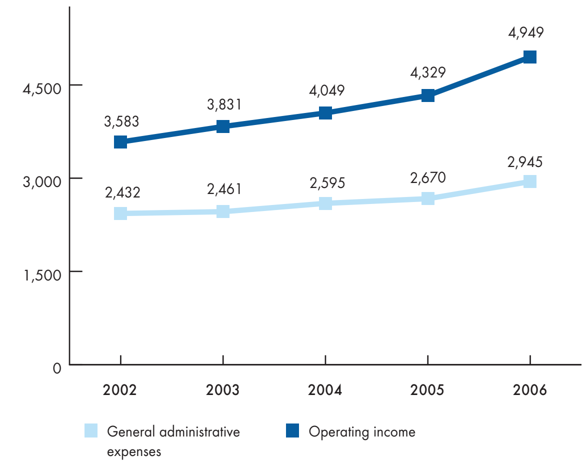
Erste Bank Serbia and Banca Comercială Română (BCR) are consolidated in the financial statements as from 9 August 2005 and 12 October 2006 respectively (transaction closing dates), resulting in distortions to the rates of change indicated. The inclusion of Erste Bank Serbia has made little difference, but in the case of BCR the impact is considerable. In view of this, the rates of change excluding BCR are also shown.

Following the revision of IAS 19 (Employee Benefits), actuarial gains and losses may now be offset against capital rather than being recognised in the income statement when calculating post-employment benefits. Erste Bank made use of this option in 2006. Application of IFRS 7 (Financial Instruments: Disclosures) has been mandatory since 1 January 2007. In preparation for this, Erste Bank Group has provided more detail in its balance sheet and income statement for 2006. In addition, and as already announced at the Capital Markets Day 2006 in Bucharest, a new method of allocating equity capital was introduced in segmental reporting to coincide with the initial consolidation of BCR.

All prior-year figures and rates of change shown are based on the comparative figures adapted in line with these changes. Details of the changeover were provided in a release published on 30 January 2007, which can be found on Erste Bank's website (www.erstebank.com/investorrelations).

Erste Bank recorded an outstanding performance yet again in 2006, following up on the success of recent years. Although BCR made only a minimal contribution to earnings in 2006, the bank again delivered record results, posting a **net profit after minority interests** of EUR 932.2 million (excluding BCR EUR 904.8 million).

Operating income and operating expenses in EUR million



Operating income (up 14.3%; excl. BCR 9.7%) grew much more strongly than **general administrative expenses** (10.3%; excl. BCR 6.3%), increasing **operating profit** (the difference between these two values) by 20.7% (excl. BCR 15.3%) from EUR 1,659.4 million to EUR 2,003.6 million.

On the earnings side, excluding the effects of the first-time consolidation of BCR, the extremely positive rises in net interest income (+9.4%) and net commission income (+11.5%) were particularly noteworthy. Income from insurance business fell slightly due to the negative securities market conditions.

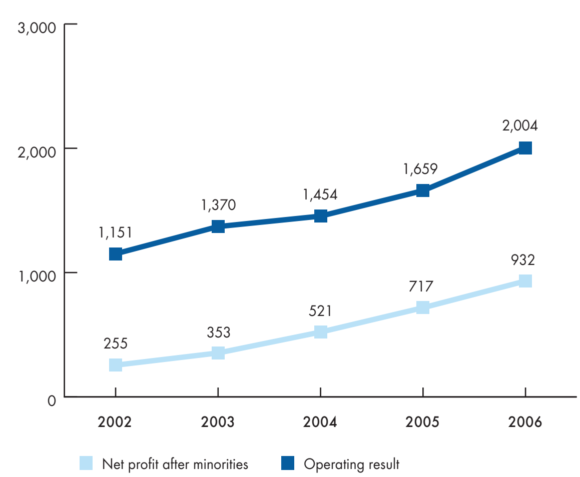
The cost/income ratio improved from 61.7% to 59.5%.

Risk provisions for loans and advances rose only moderately by 4.2% (excl. BCR +2.2%) from EUR 421.6 million to EUR 439.1 million.

Other operating result and **results from** the various categories of **financial assets** worsened from EUR -16.1 million in 2005 to EUR -42.3 million (excl. BCR the result was slightly better than 2005 at EUR -12.7 million).

This led to **pre-tax profit** of EUR 1,522.2 million, an increase of 24.6% (excl. BCR 20.2%) on the year-back figure of EUR 1,221.7 million.

Operating result and net profit after minorities in EUR million

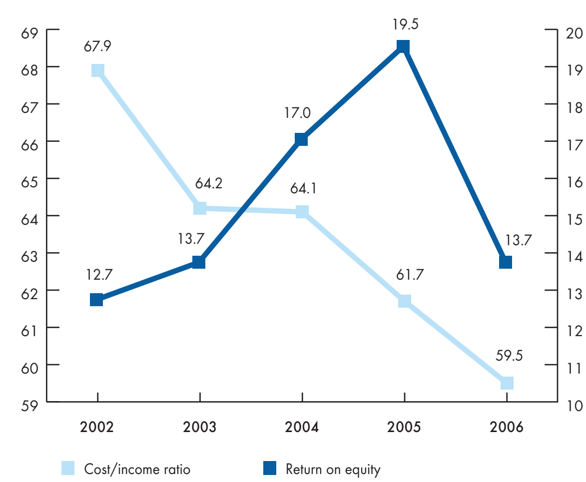


The average number of Erste Bank Group employees in the year under review was 40,032. BCR was only included in this figure for the fourth quarter. The previous year's figure was 36,643 – see Notes for details. An examination of this figure in relation to pre-tax profit shows that employee productivity rose significantly compared with the previous year, with the pre-tax profit per employee totalling around EUR 38,000 (2005: EUR 33,000).

Net profit after minority interests rose by 30.1% (excl. BCR 26.2%) from EUR 716.7 million to EUR 932.2 million (excl. BCR EUR 904.8 million.

As expected, the capital increases carried out in 2006 following the acquisition of BCR led to a decline in the **return on equity (ROE)** from 19.5% to 13.7%.

Key profitability ratios in %



Earnings per share increased from EUR 2.98 in 2005 to EUR 3.10 last year (based on the markedly higher average number of issued shares in 2006 as a result of the capital increases).

Total assets rose by 19.0% in 2006 to EUR 181.7 billion (excl. BCR +8.4%). **Loans to customers** increased by 20.8% to EUR 97.1 billion (excl. BCR +11.3%), while **amounts owed to customers** rose by 24.8% to EUR 90.8 billion (excl. BCR +14.8%).

At 31 December 2006, Erste Bank Group had a total of 986 branches in Austria (including Cross-guarantee scheme savings banks) and 1,735 branches in Central and Eastern Europe.

The **Tier 1 capital ratio** under the Austrian Banking Act (BWG) was 6.6% at the end of 2006, down from 6.8% in the previous year. The **solvency ratio** was 10.3% (2005: 11.0%) and thus remained well above the statutory minimum of 8%.

Dividend

The management board will propose that the annual general meeting approve a dividend of EUR 0.65 per share for the 2006 financial year. This represents an increase of 18.2% compared with the previous year (EUR 0.55). All new shares issued in 2006 are entitled to a dividend for the whole of the 2006 financial year.

Outlook

In January 2007 Erste Bank signed an agreement to acquire 100% of **Diners Club Adriatic d.d. Croatia (DCA),** one of Croatia's leading credit card companies. The final acquisition price will be based on the profit achieved in the 2006 financial year, but will not exceed EUR 153 million. The transaction is still subject to approval from the Croatian and Austrian supervisory authorities.

The acquisition of 100% of **Bank Prestige, Ukraine,** was concluded on 24 January 2007. The acquisition agreement for this transaction was signed in December 2006.

In accordance with the ruling of the Austrian Financial Market Authority on 31 January 2007, Erste Bank Group has become a qualified institution for the implementation of the advanced **Basel II** approach.

From 2007, therefore, in Austria and the Czech Republic the advanced IRB approach will be applied in respect of credit risk in the retail segment, and the foundation IRB approach in respect of other Basel segments. Market risks are already covered by an internal model that has been approved by the Austrian supervisory authority. In 2007 operational risk will be measured using the basic indicator approach.

Erste Bank expects its **positive business performance to continue in 2007.** The acquisitions of BCR in the fourth quarter of 2006 and Prestige Bank in January 2007 should further boost growth.

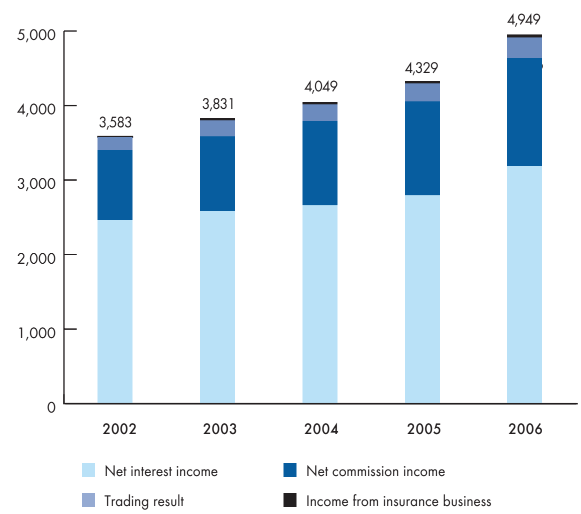
The **group synergy projects** currently being implemented (group-wide purchasing, refinement of controlling systems, centralization of IT developments, ongoing client service improvements) should also contribute positively to Erste Bank's future earnings.

Erste Bank Group has set itself the **target for 2005 to 2009** of achieving an average increase in net profit after minority interests of over 20% p.a.

The target for 2007, including BCR, is 25%. The target for the cost/income ratio in 2009 is under 55%. Return on equity fell, as expected, due to the sharp increase in shareholders' equity following the capital increases carried out in 2006. However, it will start to rise in subsequent years and should be around 18-20% in 2009.

ANALYSIS OF PERFORMANCE

Operating income structure and trend in EUR million



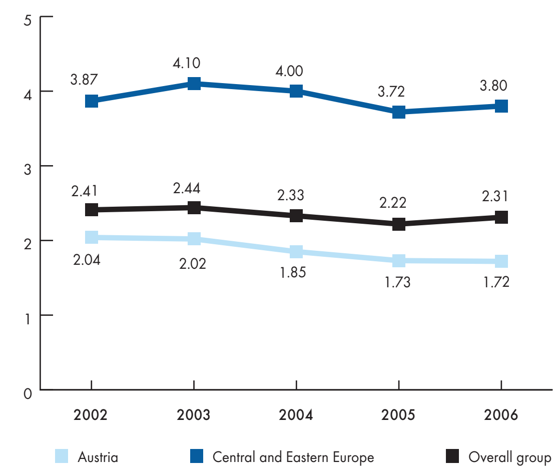
Net interest income

Net interest income, the most important earnings figure, posted an above-average increase of 14.1%, rising from EUR 2,794.2 million to EUR 3,189.3 million. Even excluding BCR, it rose a very satisfactory 9.4% to EUR 3,058.3 million.

Apart from additional income generated by investing the proceeds of the capital increase carried out in January 2006, up to the closing of the BCR transaction in October, Erste Bank also benefited group-wide from the rising trend in interest income in the retail business. The main driver behind this positive result was the strong rise in lending by the Central and Eastern European subsidiaries, with loans to clients – excluding BCR – increasing 27.4%.

The net interest margin – the previous year's figure was adjusted for a change in the calculation basis in order to maintain comparability – rose from 2.22% to 2.31%, with 6 basis points attributable to the first-time consolidation of BCR. There was very little change in the average margin in either the domestic (approx. 1.7%) or CEE business (excluding BCR, approx. 3.7%).

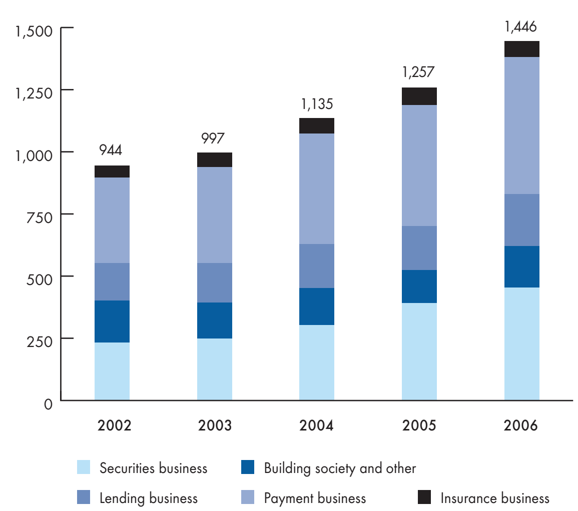
Net interest margin in %



Net commisssion income

Net commission income increased a sizeable 15%, from EUR 1,256.8 million to EUR 1,445.9 million (excluding BCR +11.5% to EUR 1,401.1 million).

Net commission income structure and trend in EUR million



This included above-average increases in the domestic business, but particularly in the CEE subsidiaries. The trend was especially satisfying in the lending and securities business (+18.1% and +15.9% respectively) and in payments (+13.4%).

Net trading result

Overall, net trading income rose by 15% from EUR 241.7 million to EUR 277.9 million. Income from foreign exchange business, however, grew by an above average 19.8%, with the CEE subsidiaries particularly buoyant.

Income from insurance business

In the previous year, due to exceptionally high income from security valuations and sales, net income from insurance business was above average. In 2006, as expected, the rise in interest rates meant that this result could not be repeated.

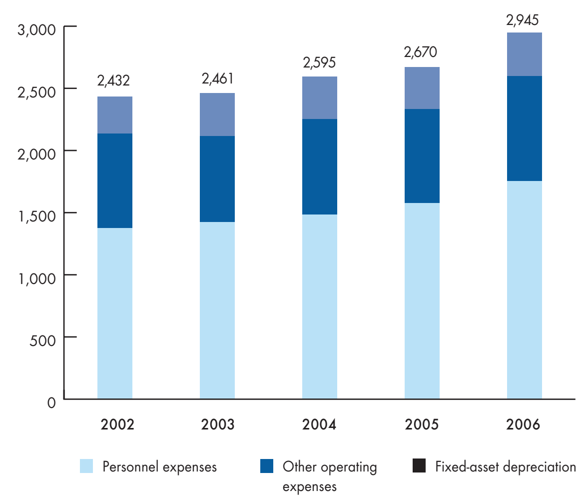
Excluding BCR, this business posted a slight loss, down 11.6% to EUR 32.4 million. Including BCR, net income from insurance business was virtually unchanged at EUR 35.8 million.

General administrative expenses

General administrative expenses rose by 10.3% from EUR 2,670.0 million to EUR 2,945.3 million, excluding BCR by 6.3% to EUR 2,838.0 million. Despite a very modest increase of 2.3% in Austria (incl. Corporate Center and international business), CEE as a whole reported a 24.0% increase (excluding BCR: 13.1%).

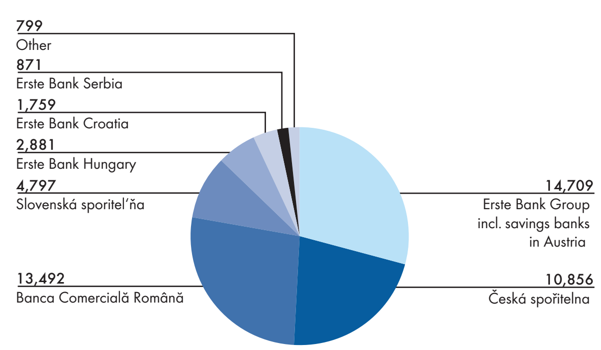
Personnel expenses grew by 11.0%, from EUR 1,576.5 million to EUR 1,750.5 million, or by 6.9% to EUR 1,685.8 million excluding BCR. Apart from the impact of market-related salary adjustments in a number of central European subsidiaries and from expanding the branch network in Hungary and Croatia, the growth in costs was due to an increase in performance and results-based salary components. The 27.7% rise in central Europe to EUR 576.7 million (excluding BCR: +13.4%) was far higher than in the rest of the group (+4.3% to EUR 1,173.8 million).

General administrative expenses, structure and trend, in EUR million



There was a slight (1.4%) increase in **headcount,** even excluding BCR. Including BCR, the number of employees rose 38.8% to 50,164 in 2006.

Headcount at 31 December 2006



It should be noted that the branch networks in Hungary and Croatia were extensively increased and optimised. Furthermore, due to a change in law in Hungary, an additional 100 contract staff were added to the Bank's headcount.

As at the end of 2006, a further 67 people (previous year: 63) were employed in consolidated non-banking subsidiaries (mainly in the hotel and leisure sector).

An increase of 11.7% from EUR 759.0 million to EUR 848.2 million was recorded in **other administrative expenses** (excluding BCR: +7.8% to EUR 818.0 million).

Other administrative expenses rose 23.9% in Central and Eastern Europe (excluding BCR: 15.9%), but were unchanged in the rest of the group. The trend in IT expenses was very positive, unchanged from the previous year both with and without BCR. There were larger rises in premises and office expenses, and in marketing expenses.

Depreciation on tangible fixed assets rose slightly, by 3.6% from EUR 334.5 million to EUR 346.6 million, and was unchanged excluding BCR. This positive trend is attributable to the domestic business, which posted a 6.4% decrease, mainly due to the restrictive investment approach adopted over the last few years. Central and Eastern Europe saw a rise of 13.8% (excluding BCR: +6.3%).

Operating result

Operating income (net interest income, net commission income, net trading profit and net income from insurance business) improved by 14.3% from EUR 4,329.4 million to EUR 4,948.9 million (excluding BCR: +9.7%).

As operating income increased more than **general administrative expenses** (+10.3% from EUR 2,670.0 million to EUR 2,945.3 million; excluding BCR: +6.3%), operating profit improved by 20.7% from EUR 1,659.4 million to EUR 2,003.6 million (excluding BCR +15.3%).

Risk provisions

Risk provision allocations for loans and advances grew a modest 4.2% from EUR 421.6 million to EUR 439.1 million. There was a significant fall in the amount of provisions allocated to international business, thanks to the outstanding quality of the portfolio. Direct write-offs were also much lower than in the previous year. In Central and Eastern Europe, the sharp increase in lending volumes led to a higher provision allocation. In 2005, the allocation by Česká spořitelna was atypically low due to the final release of the general reserve.

This does not include changes in net interest income due to adjustments in the value of interest-bearing instruments. Additions and releases to other risk provisions that do not relate to lending business are included in other operating income. In 2006, the average annual allocation for customer receivables was 0.50% (previous year: 0.55%).

For further **information on financial risks within Erste Bank and the targets and methods used in risk management,** please see the comprehensive risk report in the Notes.

Other operating result

Other operating result worsened from EUR -73.2 million in the previous year to EUR -144.0 million (or EUR -113.8 million excluding BCR). The IFRS regulations now state that in the case of acquisitions, the "value of client relationships", acquired with the purchase of BCR, must be listed as an intangible economic asset. In 2006, for the first time, a linear amortisation of EUR 18 million was made for this. Non-lending risk provisions have also risen (from EUR 21.5 million to EUR 38.6 million). Payments into the deposit insurance scheme in the CEE were down by EUR 29.5 million over the previous year (EUR 42.6 million), mainly due to legislative changes in Slovakia.

Results from financial assets

While the **results from financial assets** in the **fair value portfolio** and **held to maturity portfolio** did not make any significant contributions, the **available for sale portfolio** made a positive contribution of EUR 100.0 million, considerably above that of the previous year (EUR 44.2 million). This includes the profits from the sale of a minority stake in the fourth quarter of 2006, worth around EUR 32 million.

Pre-tax profit

As a result pre-tax profit reached EUR 1,522.2 million, a rise of 24.6% above the previous year's EUR 1,221.7 million (excluding BCR +20.2% to EUR 1,469.0 million).

Tax situation

Under current applicable group taxation regulations (in accordance with § 9 of the Austrian Corporation Tax Act) the majority of our most important domestic subsidiaries (especially s Bausparkasse, Immorent, Erste-Sparinvest KAG, s Versicherung and Salzburger Sparkasse) are to be taxed together with Erste Bank AG as one single group and therefore subject to group taxation.

In 2006 Austrian corporation tax regulations levied no charge on this profit pooling. This was due primarily to existing losses carried forward, high tax-free income and the possibility of offsetting capital gains taxes, especially those incurred abroad. Therefore the reported amounts under **taxes on income** under IFRS concern above all foreign income-related taxes as well as the asset and liability accruals and deferred taxes and tax provisions of smaller Austrian subsidiary companies and various savings banks involved in the cross-guarantee scheme.

In 2006, the total reported expenditure balance of EUR 339.8 million (previous year EUR 301.7 million) contains a deferred tax provision of EUR 82.7 million (previous year EUR 23.8 million).

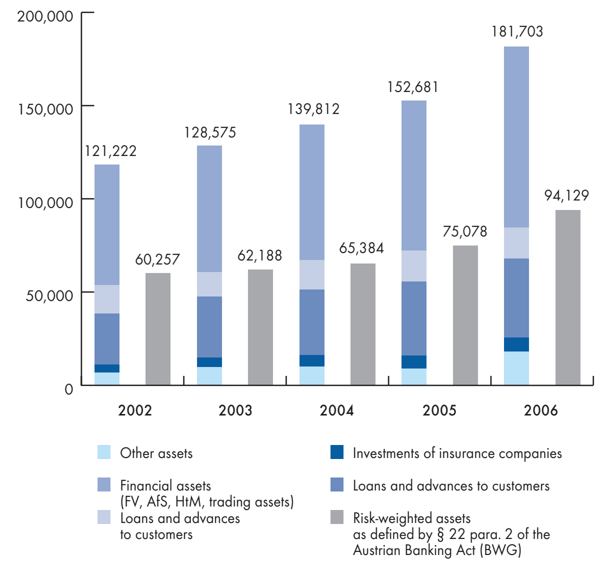
The reported tax rate of Erste Bank Group was at around 22.3% (previous year 24.7%), as expected. The fall compared to the previous year is explained partly by the Czech Republic's reduction of its tax rate from 26% to 24%. The inclusion of BCR has a softening effect as well, because of the low tax rate in Romania – 16%.

Balance sheet developments

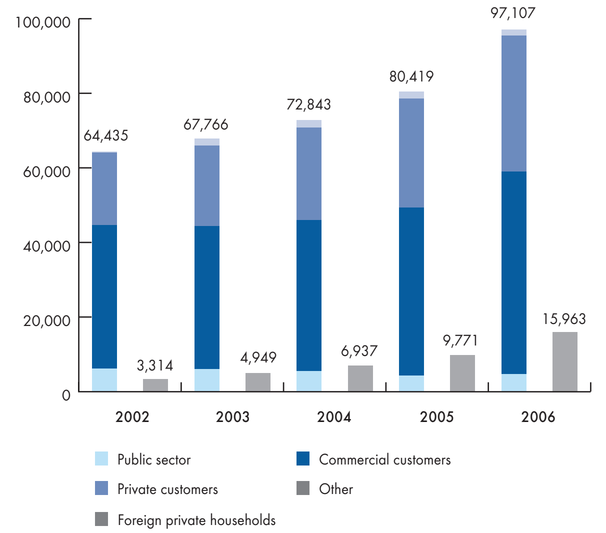
Erste Bank Group's **total assets** increased by 19.0% from EUR 165.5 billion to EUR 181.7 billion (excluding BCR +8.4%) to in the 2006 financial year.

Loans and advances to customers increased by 20.8% to EUR 97.1 billion (excluding BCR +11.3% to EUR 89.5 billion). The Austrian business saw only moderate growth of 3.9%, but the CEE business grew by a considerably greater 68.2%, which was in part accounted for by the inclusion of BCR. In total, net balances due to CEE clients – excluding BCR – grew by around 27.4% and private client business grew by 34.9%.

Balance sheet structure and trend/assets in EUR million



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



Risk-weighted assets (RWA) as defined by section 22 (2) BWG also registered an above-average rise of EUR 19.1 billion or 25.4% on EUR 94.1 billion (excluding BCR, +EUR 11.1 billion or 14.7%).

Risk provisions rose by EUR 0.3 billion or 11.2% to EUR 3.1 due to the first-time incorporation of BCR. If the BCR effect is excluded, the position as at 31 December 2006 was more or less unchanged from that of the previous year due to the additions in 2006 being compensated for by releases and utilisation.

Trading assets had an above-average rise of 14% from EUR 5.4 billion to EUR 6.2 billion, with the bulk of the rise coming from listed fixed income securities.

Investments in financial assets fair value, held to maturity and available for sale portfolios) rose in total by 6.7% to EUR 36.3 billion (excluding BCR +5.5% to EUR 35.9 billion). Here too the bulk of the rise came from listed fixed income securities.

The **investment portfolios of the insurance companies** grew by 3.7% to EUR 7.3 billion (excluding BCR +3.0%).

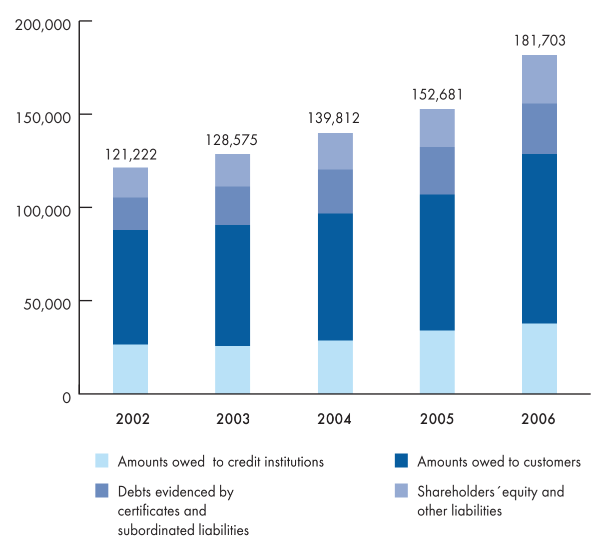
Intangible assets rose sharply from EUR 1.9 billion to EUR 6.1 billion. This can be explained by the goodwill resulting from the acquisition of BCR together with the implementation of IFRS rules relating to client relationship values and the brand value of BCR.

On the asset side, **loans and advances to credit institutions** declined by 1.4% to EUR 16.6 billion (excluding BCR +0.8% to EUR 17.0 billion). On the liabilities side, there was an increase in **amounts owed to credit institutions** of 11.1% to EUR 37.7 billion (excluding BCR -7.3% to EUR 31.4 billion).

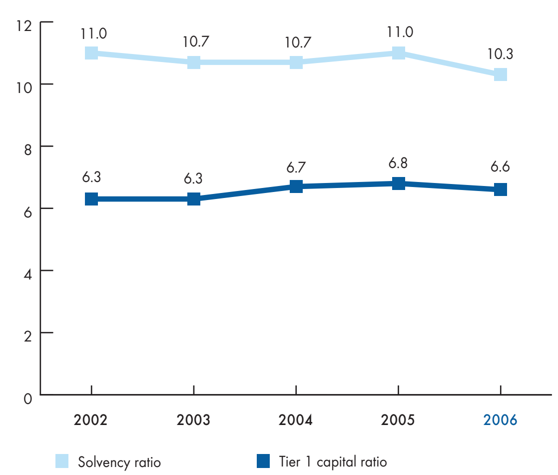
Amounts owed to customers rose by 24.8% to EUR 90.8 million (without BCR +14.8% to EUR 3,058.3 million). Domestic customer deposits rose by 6.5% to EUR 45.5 billion. The amounts owed to foreign customers rose by 50.8% to EUR 45.4 billion.

Deposits by private customers in Central and Eastern Europe increased by 20.8% (excluding BCR). [NB - prelim results release has 28.4%]

Balance sheet structure/liabilities and total equity in EUR million



Solvency ratio and Tier 1 capital ratio in %



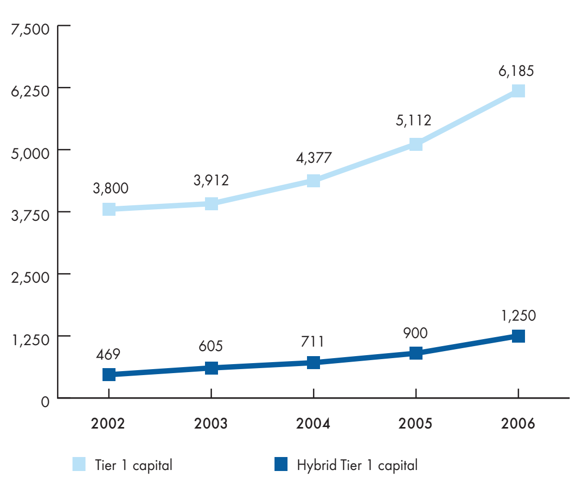
Erste Bank Group's **refinancing via own issues** increased by 5.6% to EUR 27.0 billion (excluding BCR +0.8% to EUR 25.8 billion). Subordinated issues in particular showed an above-average rise of 21.4% to EUR 5.2 billion. This can be partly explained by the effect of hybrid capital on the core capital, as defined by BWG (this rose in 2006 from EUR 900 million to EUR 1,250 million).

Capital increases – especially the financing of the acquisition of BCR – as well as the current annual profit, resulted in a 70.9% increase to EUR 10.9 billion. Shareholders' equity increased by 96.4% to EUR 8.0 billion.

With regard to the supplementary disclosure obligations under § 243a of the Austrian company civil code (UGB), we refer to the explanations on capital in the Notes.

The eligible **qualifying capital** of Erste Bank Group as defined under BWG was approximately EUR 10.1 billion as at 31 December 2006 (end of 2005: EUR 8.6 billion). The coverage ratio in relation to the legal minimum requirement (EUR 8.0 billion) amounted to 127% (year end 2005: 135%).

Tier 1 capital under BWG and hybrid Tier 1 capital in EUR million



The **tier 1 capital** according to BWG was approximately EUR 6.2 billion (year end 2005: EUR 5.1 billion).

The **tier 1 capital ratio** according to BWG was approximately 6.6% at year end 2006 (year end 2005: 6.8%).

The **solvency ratio** according to BWG was 10.3% (previous year: 11.0%) and therefore significantly above the statutory minimum of 8%.

Corporate Social Responsibility (CSR)

A detailed sustainability report is published in Erste Bank Group's 2006 annual report as a separate section to the financial report.

Growing contribution from Central and Eastern Europe

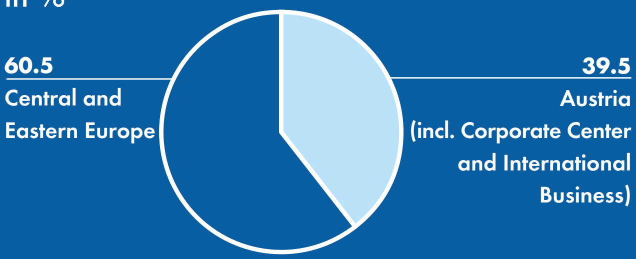
2005

in EUR million	
Pre-tax profit	
Austria	571.2
CEE	600.9
Net profit after minorities	
Austria	268.1
CEE	443.3
Average risk-weighted assets	
Austria	46,575.7
CEE	16,562.5

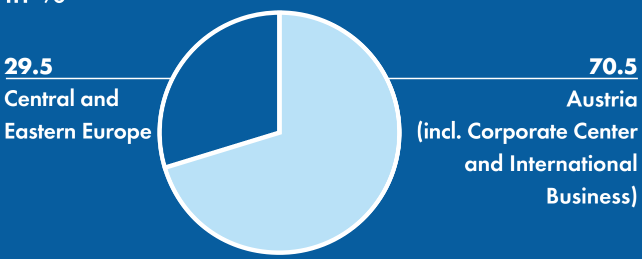
2006

in EUR million	
Pre-tax profit	
Austria	698.7
CEE	808.5
Net profit after minorities	
Austria	345.9
CEE	563.7
Average risk-weighted assets	
Austria	49,634.7
CEE	24,146.7

Net profit contribution by region
in %



Risk-weighted assets by region
in %



Segments

INTRODUCTORY REMARKS

The format of the segment report introduced last year which includes a structured round-up of our operating environment in addition to the key financial measures, remains in place. The following tables and texts may contain rounding differences.

As in previous years, a number of financial measures to assess the performance of business segments were used. All measures are calculated in accordance with IFRS and show the group contribution of the single business lines in relation to the overall group performance. This leads to differences between locally reported figures and measures, and segment numbers.

In 2006 a new method for equity allocation was introduced in parallel with the consolidation of BCR in the financial statements. This is one of the first innovations in the segment report from from the New Group Architecture projects.

Under the previous method all the equity of Erste Bank Group was primarily allocated to the segments based on the distribution of risk-weighted assets (credit risk). Erste Bank's new approach to equity allocation involves allocating not all equity available across the group but only that part that the business lines of Erste Bank AG or its subsidiaries require on the basis of costs (viewed as parameters for operational risk), risk-weighted assets (viewed as the basis for the credit risk) and the equity requirement (to cover the market risk), largely on the basis of the relevant value-at-risk calculations. This also takes into account the correlation effects across risk categories. The difference between the total available equity and the capital booked against the business segments is presented in the Corporate Center segment.

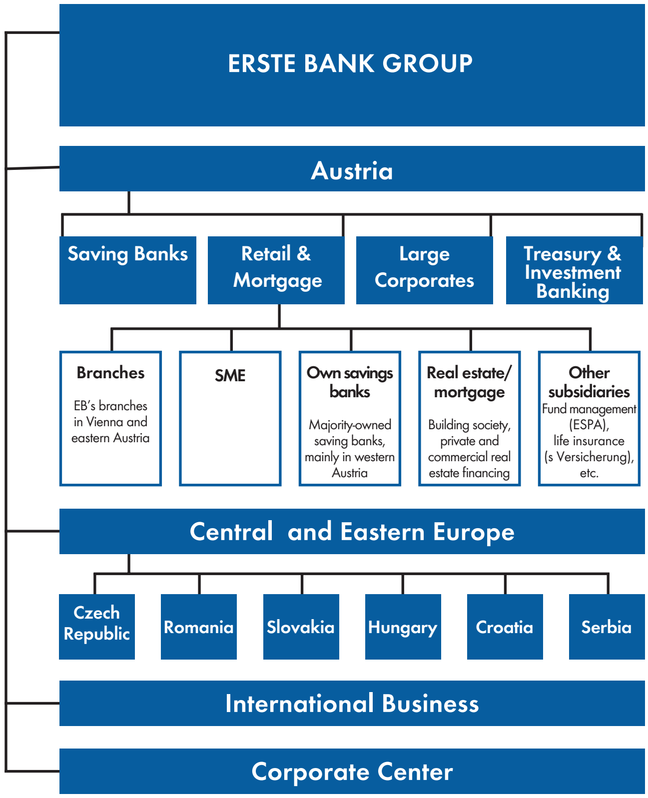
As a result of the new equity allocation, the net interest income line can accordingly show material differences compared to local reporting. The process of equity allocation is implemented in several stages during segment reporting, as set out below:

_Elimination of local equity including the corresponding return on investment
_Elimination of the refinancing costs of the book value of equity interests, which were previously assigned to equity interests (these are now booked to the Corporate Center)
_Recognition of the corresponding group equity and the accompanying return on investment according to the new methodology described above.

At each stage a corresponding tax liability or tax exemption applies to the resulting balance.

This leads to a significant optimisation of Erste Bank Group's management of equity risk-return ratios and also a clear improvement in comparability across the various segments.

A round-up of the segments – presented by business lines and geographical markets – can be found in the Annex on page 127 under Note 35.



AUSTRIA

The Austria segment includes most banking activities in Austria and additional activities conducted on a group-wide basis. It is divided into four sub-segments: Savings Banks, Retail and Mortgage, Large Corporates, and Treasury and Investment Banking.

ECONOMIC REVIEW

Our Austrian businesses operated against a very positive economic background in 2006. The Austrian economy outperformed Eurozone growth for the fifth year running, and continued on its path of stable growth. Real GDP rose by 3.1% in 2006, the highest rate recorded since 2000, while GDP/capita hit a record level of EUR 31,000. Whereas exports and domestic demand contributed in equal measure to overall growth last year, demand at home accounted for most of the increase in 2006. As a result, the unemployment rate improved slightly to 5.1%, still well below the Eurozone average.

Consumer price inflation dropped to below 2% despite the strong economy, primarily as a result of the drop in energy prices in the second half of the year.

Given the growth in the other Eurozone countries, the European Central Bank continued its policy of modest rises in interest rates begun in December 2005. Short term interest rates rose to an average of 2.9 % in 2006, still a relatively moderate level.

Austria's current account balance continued to stay in positive territory, again helped along by a strong trade balance. This amounted to 1.6% of GDP as opposed to 1.0% in 2005. The general government balance improved in 2006 to a deficit of 1.3% as a result of increased tax revenues, but remained well inside the limits set out by the Stability and Growth Pact.

Key economic indicators – Austria

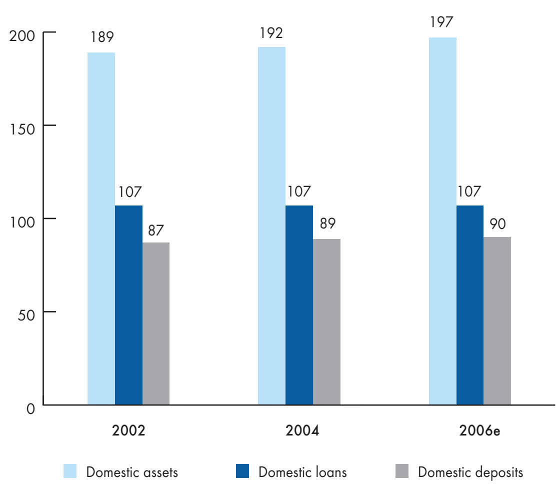
	2003	2004	2005	2006e
Population (ave, million)	8.1	8.2	8.2	8.3
GDP (nominal, EUR billion)	226.2	235.8	245.1	256.5
GDP/capita (EUR thousand)	27.9	28.8	29.8	31.0
Real GDP growth	1.1%	2.4%	2.0%	3.1%
Domestic demand contribution	2.5%	1.6%	1.2%	2.6%
Exports (share of GDP)	48.4%	51.6%	54.3%	55.2%
Imports (share of GDP)	44.9%	47.3%	49.5%	50.2%
Unemployment (Eurostat definition)	4.3%	4.8%	5.2%	5.1%
Consumer price inflation (ave)	1.3%	2.0%	2.1%	1.7%
Interest rate (1m interbank offer rate)	2.3%	2.1%	2.1%	2.9%
EUR FX rate (ave)	1.0	1.0	1.0	1.0
EUR FX rate (eop)	1.0	1.0	1.0	1.0
Current account balance (share of GDP)	-0.2%	0.2%	1.2%	0.6%
General government balance (share of GDP)	-1.6%	-1.2%	-1.5%	-1.3%

Source: Eurostat.

MARKET REVIEW

Austria's domestic banking market shows many features of a mature Western market: a high degree of competitive tension and low profit margins; and a market structure that is characterised by a large number of non-listed institutions, which impacts on the cost structure as well as profitability. Although this means that the sector is less profitable than the rapidly growing markets of Central and Eastern Europe, the Austrian market offers selected growth opportunities in areas such as mortgages and wealth management. While Austria already occupies a leading position in wealth management, the traditionally low rate of property ownership is a clear indication of the potential for the mortgage sector.

Financial intermediation – Austria in % of GDP

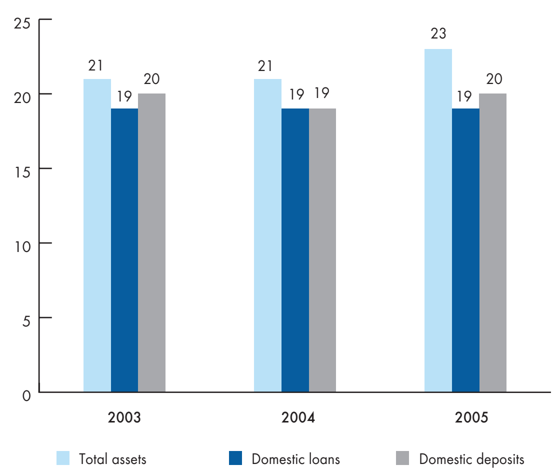


Source: Oesterreichische Nationalbank, Eurostat.

Overall market aggregates, ie those including foreign assets, reflect the Austrian banks' push into Central and Eastern Europe. In 2006 total banking assets/GDP were 311%, an impressive level even by international standards and up from 260% in 2002.

Growth in the Austrian market is lopsided, though. While the total market grows strongly on the back of the ever increasing central and east European exposure, the domestic asset/GDP ratio has been hovering around 190%–200% for the past decade or so. A similar dichotomy can be observed for other aggregates such as deposits and loans. Domestic aggregates grow in line with GDP, while foreign aggregates tend to grow in excess of both Austrian and local GDP.

Market shares – Austria in %



Source: Oesterreichische Nationalbank, Erste Bank.

In parallel to the stable development of the domestic market, Erste Bank maintained and developed its position as one of the leading Austrian banks. In 2006 it increased its market share sharply to a 23% total asset market share, due mainly to the first-time inclusion of BCR in the consolidated financial accounts. In addition, Erste Bank maintained very stable market shares in domestic deposits and loans. It served some 2.8 million customers through a network of some 986 own and savings bank branches as well as electronic channels.

SAVINGS BANKS/HAFTUNGSVERBUND

Business profile In 2006 the Savings Banks segment encompassed 43 Austrian savings banks with 708 branches that were consolidated as a result of their membership in the Haftungsverbund and in which Erste Bank AG held little or no equity interest. Savings banks that are majority-owned by Erste Bank (Salzburger Sparkasse, Tiroler Sparkasse and Sparkasse Hainburg-Bruck-Neusiedl) are included in the Retail and Mortgage segment.

In addition Erste Bank and the savings banks cooperate on such key operational issues as common product development; the projection of a unified identity through a one-brand strategy; the standardisation of business and marketing strategies for retail and corporate banking; the development of common management information and control systems and integration of central functions. They also work together on a large number of joint projects in administration and information technology and on legal requirements.

BUSINESS REVIEW

Strategy. The Savings Bank segment continues to focus on strengthening its existing strong ties to Erste Bank. This cooperation is intended to bolster the distribution and market development capabilities while promoting an efficient division of labour within the organisation, up-to-date human resources policies and appropriate decision-making structures. Other key goals include optimising customer service while improving profitability.

Highlights 2006

Successful servicing of the market. In 2006, Erste Bank and the savings banks were once again able to expand their client share in Austria. The overall client share increased to 28.7%, while main client share increased to 22.8%. As a result of its successful market presence Erste Bank and the savings banks again received top honours in advertising recognition across all banking sectors.

Progress in implementing IT. In 2006 a series of successful IT projects were implemented. These included s Abwicklungsmanagement, an electronic document management software project, which will be piloted by the first savings banks in 2007. Other projects were primarily aimed at easing the burden on sales functions, such as an e-learning programme for branch staff. New customer relationship management functions were introduced leading to a very useful improvement in customer analysis. Domestic and European payment transfer procedures were homogenised. We also stepped up efforts to promote product sales using electronic distribution channels. Cost savings were made by establishing remote hardware and software maintenance systems. Progress was also made in implementing a range of legal requirements including projects on risk-oriented reporting and balance of payments. The savings banks were also leaders in adopting the Basle II regulatory framework.

Financial review

in EUR million	2006	2005
Pre-tax profit	246.1	192.7
Net profit after minorities	15.8	8.8
Operating result	406.0	394.7
Cost/income ratio	67.0%	67.6%
ROE based on net profit	6.0%	3.6%

Net profit after minority interests improved by EUR 7.0 million from EUR 8.8 million to EUR 15.8 million. Return on equity rose from 3.6% to 6.0%, while the cost/income ratio fell slightly from 67.6% to 67.0%.

Net interest income remained more or less unchanged despite persistent low interest rates and pressure on margins, particularly on the refinancing side, showing only a slight reduction of EUR 1.4 million, or 0.2%, from EUR 841.2 million to EUR 839.7 million. Risk provisions were significantly lower, down EUR 44.4 million from EUR 215.8 million to EUR 171.3 million due to an overall improvement in risk distribution and positive effects of general risk provisions. Net commission income rose by EUR 6.8 million from EUR 358.1 million to EUR 365.0 million. This gain was generated primarily by securities transactions and payment transfers, reflecting the successful cooperation between the savings banks in the Haftungsverbund.

General administrative expenses were reduced slightly through tight costs management from EUR 825.2 million by EUR 1.1 million to EUR 824.2 million. Other result reflected valuation gains in securities not assigned to the trading portfolio and other provisions.

OUTLOOK 2007

In 2006, the savings banks intend to step up their combined efforts in sales and market development. At the start of 2007 all savings banks were provided with a new distribution management tool to measure and document sales performance by management level and product category on a weekly basis. This distribution management tool is designed to support savings banks in the 2007 priority areas of savings, finance, insurance provision and funds provision. Management will focus on increasing the take-up and quality of benchmarking across the distribution functions.

RETAIL AND MORTGAGE

Business profile. The Retail and Mortgage segment comprises all activities outside the savings banks segment in Austria relating to retail, mortgage and small and medium-sized corporate customers. More specifically, it includes Erste Bank's 144-strong branch network in Eastern Austria, including Vienna, which predominantly serves professionals, retail clients and SMEs. As noted above, it also includes three savings banks majority-owned by Erste Bank (Salzburger Sparkasse, Tiroler Sparkasse, Sparkasse Hainburg-Bruck-Neusiedl).

A portion of the results of the investment fund business of Erste-Sparinvest, consisting of private banking and portfolio management for retail customers, and of the life insurance business (s Versicherung), are also included in this subsegment. Erste-Sparinvest is the market leader in retail funds in Austria and No. 2 overall, while s Versicherung, which is the partner to Erste Bank, the savings banks and s Bausparkasse, is one of the leading life insurance companies in the Austrian market.

Erste Bank's Austrian real estate and mortgage activities also form part of this segment, covering retail mortgages, non-profit, subsidised and commercial housing finance, and property management and brokerage. The main operating units are building society s Bausparkasse – market leader in Austria – which finances private customers as well as non-profit and commercial housing developers and has also been responsible for Erste Bank´s mortgage bond transactions since 2005; property agency s REAL, with 84 offices across Austria; and s Wohnbaubank, a specialist real estate finance bank.

BUSINESS REVIEW

Strategy. The Retail and Mortgage segment aims to offer its retail customers a one-stop solution for all their financing and investment needs. The strategic focus is on pension products for all target groups, increasing client numbers in the key over-60s group and the rapid development of mortgage services. The aim is to be the partner of choice for small and medium-sized enterprises. For this, products that emphasise the service capabilities outside the traditional lending business will be developed. In fund management the aim is to expand the leadership position in retail area, whilst the priority in the life insurance business is to regain the leading position.

Highlights 2006

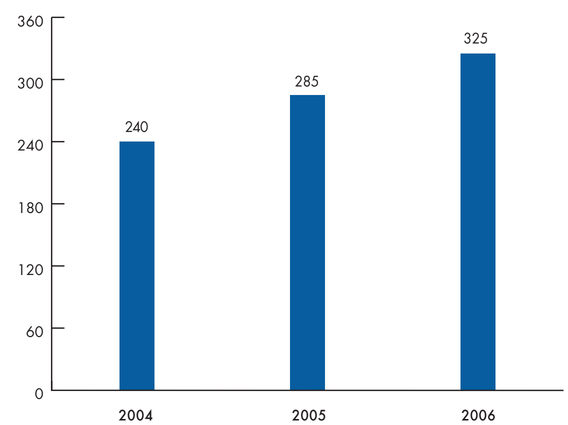
Own branches successful despite difficult conditions. In 2006 the operating environment proved more challenging due to uncertainties of future interest rate development. Own branches still managed a number of successes, such as a 12.1% increase in securities commissions from EUR 90.3 million to EUR 101.2 million, whilst sales of securities based savings plans rose by 13.3% from just under 21 thousand to almost 24 thousand despite high market saturation. New inflows led to an 18.5% increase in savings deposit volumes to around EUR 2.2 billion. There was a very gratifying increase of 5.9% in new customer acquisition to almost 43 thousand, due mainly to "customer recruits customer" initiatives and high customer satisfaction rates. The launch of the group-wide card strategy boosted credit card sales by a substantial 20.9% rise through a range of products aimed at a variety of target groups. Demand for mortgages remained high, increasing by 6.4% from EUR 3.6 million to EUR 3.8 million.

SME business continues to make a positive contribution. Despite the reputation of business with small and medium-sized enterprises as a problem segment in the Austrian banking sector, this business unit again operated at a profit and improved on its already good result. This positive development is mainly due to the consistent expansion of service business over the last two years, the implementation of a risk-adjusted pricing policy and a series of events in 2006, which presented the business unit as a professional partner for SME services. As a result the commission income share of operating income increased to over 40%. Treasury products for hedging purposes and products for balance sheet optimisation were particularly well received by customers.

Further growth in s Bausparkasse. Following the strong performance in the previous year lending continued to rise by 6.8% to EUR 5.6 billion. Of this amount EUR 4.8 billion of were private mortgages, up slightly on the previous year's with EUR 4.6 billion. New business represented EUR 1.3 billion. Whilst the number of savings plans fell slightly, deposit volumes remained stable at EUR 5.3 billion. The private housing sector profited from the increased flexibility in product offering as a result of the regulatory changes allowing building society savings to be used to finance education and care home expenses and the addition of new products such as interest only loans or loans with foreign currency components. In the corporate building sector, cooperation with the savings banks and increased financing for municipal infrastructure led to an increase in volumes of around 9% from EUR 2.4 billion to EUR 2.7 billion. Synergy effects were achieved by merging administrative units of Erste Bank and s Bausparkasse; the latter also benefitted from closer cooperation with s Wohnbaubank. The refinancing situation was improved by the take-over of Erste Bank's mortgage banking and Pfandbrief business activities. Mortgage volumes rose overall both at Erste Bank and s Bausparkasse. Total lending volume was EUR 12.2 billion compared with EUR 11.2 billion in the previous year, representing an increase of just under 9% on last year's high levels.

Increased use of alternative distribution channels. In 2006 efforts to shift standardised services towards online distribution channels were stepped up. The number of retail clients using netbanking, the online service provided by Erste Bank and the savings banks in Austria, increased by 14 %, from 285 thousand to 325 thousand. A total of 34.6 million netbanking customer contacts were registered compared with 29 million in the previous year. The number of transfers completed via netbanking increased by 1.6 million or 13.8% to 13 million, which means that one in three transfers in the retail customer segment, is now conducted via netbanking rather than through branches.

Number of active online banking users of Erste Bank and the savings banks in Austria, in thousand



Source: Erste Bank.

Similar trends have been recorded for self-service banking in Austria. Although Austrians have traditionally made most payments in cash, self-service cash withdrawals outstripped traditional over-the-counter withdrawals by a factor of 8:1. Although over-the-counter deposits remained ahead of direct access payments in 2006, the trend is clearly towards self-service. To meet the need for cash work will continue to be put into a blanket ATM network and further development of deposit services in self-service areas.

Double-digit growth repeated in funds management. In 2006 Erste-Sparinvest increased total funds under management by almost 12% to EUR 36.9 billion, growing considerably faster than the overall market. The firm's performance was recognised by such fund rating agencies as Standard & Poor's, Morningstar, Lipper and Feri Rating & Research. According to Morningstar, Erste-Sparinvest ranked No.1 among 36 European bond funds. Operationally, Erste-Sparinvest extended its market share to 18%. Funds under management grew to EUR 29.9 billion by year-end 2006, up from EUR 27.1 billion a year earlier, translating into growth of over 11%. As a result Erste-Sparinvest comfortably maintained its position as the second largest fund manager in Austria. In retail funds Erste Bank's fund management unit maintained its market leadership.

Life insurance growth continues apace. s Versicherung confirmed its market position as one of Austria's largest life insurance companies in 2006. In the area of regular premium policies the company grew faster than the market. A number of key indicators developed positively: the number of policies rose by 6.6% to 1.1 million, investments increased by 12.3% to EUR 7.7 billion and assets insured rose by 8.2% to EUR 26.3 billion. Overall, s Versicherung clearly emphasised its function as the competence centre for old age provision within the savings banks sector through targeted promotional measures related to private and occupational pension provision.

Financial review

in EUR million	2006	2005
Pre-tax profit	178.3	165.4
Net profit after minorities	123.4	103.7
Operating result	279.9	254.3
Cost/income ratio	68.9%	71.0%
ROE based on net profit	14.1%	12.6%

The Retail and Mortgage segment turned in a very satisfactory performance, exceeding the excellent results of the previous year. Pre-tax profit improved by EUR 12.9 million from EUR 165.4 million to EUR 178.3 million or by 7.8%. Net profit after minorities increased by EUR 19.8 million, from EUR 103.7 million to EUR 123.4 million, with an improvement in return on equity from 12.6% to 14.1% and a reduction in the cost/income ratio from 71.0% to 68.9%.

The segment's profit and loss line items were significantly impacted by accounting for Sparkassenimmobilen AG at equity, instead of fully consolidating it, as in the past.

Net interest income rose by EUR 12.7 million or 2.4% from EUR 524.6 million to EUR 537.3 million, with increased volumes making up for tighter margins in the branch network. s Bausparkasse, which is also assigned to this segment, recorded strong gains thanks to the expiration of high-rate deposits and higher income from participations. Risk provisions trended favourably, falling by 16.2%, or EUR 17.0 million from EUR 105.1 million to EUR 88.1 million. This decrease resulted mainly from the improved risk situation in the branches as well as at Tiroler Sparkasse.

Net commission income, which increased by 6.6%, or EUR 20.6 million, from EUR 314.5 million to EUR 335.1 million, made a substantial earnings contribution to this segment. This increase was driven by noticeable gains in the branches as a result of higher securities-related commissions, one-time commissions from new products (Premium Plus) and commission income from a number of capital market transactions. Increases in revenues from payment transfer fees at the Tirol and Salzburg savings banks and improved earnings from fund management and from Erste-Sparinvest's institutional clients business also contributed.

Despite the expansion in Erste-Sparinvest's business, general administrative expenses fell by 0.4%, or EUR 2.8 million, from EUR 623.8 million to EUR 621.0 million through a reduction in depreciation and a restrictive staffing policy in own savings banks. The fall in insurance business from EUR 28.8 million to EUR 17.9 million or 37.7% related to high income from investment portfolio in the previous year, which could not be repeated this year due to market conditions. Lower other result related partly to changes in the scope of consolidation, affecting participations that contributed positively to the segment result last year, and a revaluation requirement within financial assets. These effects were more than compensated by substantially lower risk provisions.

OUTLOOK 2007

In 2007, as part of the theme of old age provision the 60+ target group will be a significant priority for product development and sales. In the medium term this is the largest target group requiring a very wide range of advice and products. In view of the current market situation – Austrian home ownership remains below the European average – mortgages will also be a priority for 2007. In 2007 further emphasis will be placed on the advantages of building society savings for financial security and prosperity across all life stages.

In 2007 the **SME business** segment plans to increase commission income further, with the focus on modern products that favour the balance sheet. In 2007, as in previous years, close attention will continue to be paid to efficient cost control, risk-awareness in lending and ongoing optimisation of the distribution network.

In **fund management** the real estate funds business will be developed across the whole of the home market with a corrsponding expansion in our offering of private banking services. In the **insurance business** the focus will be on innovative product development and an increase in service and advisory services.

In 2006 return on equity targets in accordance with the equity allocation methodology applicable in 2006 were met. The Austrian business as a whole of surpassed 15%, while the Retail and Mortgage segment exceeded its 11% target.

LARGE CORPORATES

Business profile The Large Corporates segment caters to domestic and international corporate customers which post sales of over EUR 70 million in Austria. The Group Large Corporates business unit has been set up as a matrix organisation providing a unified and international client service for multinational and large corporate companies. It is aimed at companies with annual purchasing power-weighted revenues of EUR 175 million operating in one of Erste Bank's core markets. The comprehensive and tailor-made service provided by corporate account managers is a recognition of the importance of the markets in Central and Eastern Europe for Austrian and international large corporates. The focus is on applying a proactive, individual approach to managing this client segment by pooling local and international expertise. A comprehensive, needs-oriented client service is provided by professional competence centres for real estate and project financing, structured financing as well as corporate finance, export financing, trade finance and derivatives.

BUSINESS REVIEW

Strategy. Stable client relationships are at the heart of the segment's success. But the environment is becoming increasingly demanding, and further improvements in the quality of advisory services through professional and cross-border teams are a strategic priority. Competence in providing customer-oriented solutions is a key factor in developing long-term relationships with clients. These can only develop if the personal account managers work closely with specialists from the relevant departments. The consistent expansion of our domestic market to include Romania and Ukraine and other countries has widened the segment's regional capacity and deepened client relationships.

Immorent, which forms part of this segment as of 2006, offers complete solutions under "leasing & more" brand for all aspects of real estate covering the entirenuseful life of equipment and real estate. It is also increasingly utilising its wide-ranging competence and experience through the development of own projects. A further strategic priority in real estate is the tailor-made financing services for commercial and tourism real estate provided by the real estate and project financing business unit. Regional expansion is thus linked to the development of Erste Bank and Immorent. The corporate finance unit will continue to offer one-stop solutions. The strategic goal is to continue developing the market position in all areas such as equity capital markets, private equity and M&A transactions as well as structured financing.

Highlights 2006

Continued growth in large corporate business. Despite very competitive market conditions, client confidence in the Large Corporates business unit's services and offerings continued throughout 2006. The effects of successfully implementing measures over the last two years, particularly the establishment of the Group Large Corporates business unit, led to a rising contribution to results. All distribution units made crucial contributions to the operating result of EUR 154.0 million. Cooperation with the treasury business unit also paid off, with a threefold increase in relevant business volumes and operating result.

Strong year for capital market transactions. Despite volatile market conditions in 2006, no fewer than 13 equity capital markets transactions were successfully concluded with a record volume of EUR 14 billion. This included 7 IPOs and 6 capital increases of listed companies, two of which were outstanding transactions: the EUR 652 million listing of the Österreichische Post, which was followed up by an excellent share price performance, and Erste Bank's EUR 2.9 billion capital increase, the largest transaction ever to take place on the Vienna Stock Exchange. In debt capital markets, Erste Bank's leading role in Austria was strengthened by a mix of structuring competence, effective book building and particularly strong retail placement capabilities. The highlights of 2006 were corporate bonds issues by Erste Bank acting as sole or joint lead manager to Andritz, STRABAG, PORR, Lutz and Saubermacher.

Rapid growth in real estate business. Immorent continued to post significant successes in 2006. These included an increase in new business for "leasing & more" from EUR 1.8 billion to EUR 2.1 billion. New business in cross-border and CEE leasing reached a volume of EUR 972 million against EUR 845 million the previous year. The volume of new business in the real estate and project financing business also increased to more than EUR 500 million in 2006. Higlights included the financing for specialist retail and shopping centres in Slovakia and Hungary, the financing for three top-end properties in Prague's pedestrian zone and the financing of the first logistics centre in Kiev meeting Western standards. A particular highlight in the tourism sector was the financing of the Ritz Carlton Hotel in Moscow and the Hyatt Hotel in Kiev.

Corporate finance business continues its success. Erste Bank continued to strengthen its market position in this area. Financing models along the whole value chain were offered in accordance with individual business strategies and tailored to clients' specific plans for growth, repositioning as part of a regional strategy or simply value creation. There were a number of highlights at Mergers & Acquisitions, including Austria's largest private real estate transaction with a portfolio of 108 properties and a volume of around EUR 500 million. Structured financing of residential property projects was carried out for the City of Vienna. In the private equity sector Erste Bank successfully disposed of shares in the growth companies TTTech Automotive AG and UC4 to strategic investors.

Financial review

in EUR million	2006	2005
Pre-tax profit	115.4	75.1
Net profit after minorities	83.0	53.4
Operating result	154.0	134.5
Cost/income ratio	38.8%	39.9%
ROE based on net profit	16.4%	12.3%

Net profit after minority interests rose by EUR 29.6 million or 55.4% to EUR 83.0 million from EUR 53.4 million.

This rise was primarily due to fee business, which recorded a rise of EUR 18.8 million, or 22.9%, from EUR 82.2 million to EUR 101.0 million. Other result also contributed, moving up EUR 43.6 million from a loss of EUR 29 million to EUR 14.7 million. The advance in net commission income was a result of the proceeds of selling real estate and other investments, additional income from capital market transactions and additional project management fees. The improvement in other result was due to valuation gains and income from the disposal of a securitised assets and onetime income from the disposal of a private equity interest allocated to the segment. In addition, project impairment charges posted under this item in 2005 were no longer required in 2006, which also contributed to the upwards trend.

Business volumes rose by EUR 300 million or 3.1% in lending and EUR 670 million or 14.7% in leasing. Net interest income increased by EUR 7.4 million from EUR 140.2 million to EUR 147.6 million with growth of EUR 11.6 million in the leasing business offsetting the decline in income from other units.

The increase in risk provision, up 22.8 million from EUR 30.5 million to 53.3 million, stems exclusively from provisioning requirements for a loan related to a security settlement issue.

Most of the EUR 8.2 million rise in costs from EUR 89.4 million to EUR 97.6 million was due to higher expenditures in real estate leasing as business activity increased in Erste Bank Group's home market. The cost income ratio trended favourably against the previous year at 38.8%. Return on equity rose sharply from 12.3% to 16.4%.

OUTLOOK 2007

The performance of the Large Corporates business unit will be determined by two key areas in 2007: intensive relationship management with particular focus on fee income, and project financing as an adjunct to traditional lending. Products and service offerings will continue to be optimised to meet customers' needs. The focus for corporate finance will be on strengthening themarket position, including in the public sector.

In 2007 Immorent will take full responsibility across the organisation for Austrian distribution and establish the entire "leasing and more" offering more firmly in the CEE markets. Immorent also plans to take on the Ukrainian market and open an operational leasing company in Kiev.

TREASURY AND INVESTMENT BANKING

Business profile The Treasury and Investment Banking segment comprises third-party and proprietary trading activities in Vienna, London, New York and Hong Kong, as well as asset liability management. Amongst others, the segment carries out the following tasks on behalf of the group:

- _Management of asset-liability risk (interest rate and liquidity risks) for Erste Bank Group
- _Foreign currency, fixed-income and securities trading products for all client groups
- _Development of structured products, especially for all central and east European growth markets

The Treasury and Investment Banking segment links the financial markets, customers and the bank. It is the competence centre for structured investment products, working with the distribution units in order to develop the product range and to open up access to the emerging growth markets of Central and Eastern Europe for its retail and institutional clients.

BUSINESS REVIEW

Strategy. The expertise in CEE forms the basis for product innovation, making this business unit a reliable and professional partner for clients taking investment decisions throughout Erste Bank's home market in the future. The Treasury and Investment Banking segment's strategic goal is to be the best product provider in the core market of Central and Eastern Europe with a broad range of standard products, tailor-made structured products, competitive pricing and professional advisory services.

In trading Treasury and Investment Banking will leverage its market position as one of the region's largest liquidity providers and build on its market knowledge and proximity. The diversification of trading activities will ensure advances in operating performance despite volatile markets in individual asset classes.

Highlights 2006

Success in structured products. 2006 was a successful year for structured investment products despite a difficult market environment. Declining sales of capital guaranteed products were partly offset by sales of product innovations. In addition the cooperation between Erste Bank and the savings banks was further deepened: a more customer-oriented product offering was implemented, joint training programmes were designed and the product development process reworked. The first fruits of this initiative were seen in 2006 with the successful piloting of a savings product with an interest rate index-linked to shares.

Erste Bank also continued to strengthen its market position in the structured investment products sector in Central and Eastern Europe. As well as the very gratifying sales figures, it also won the sought-after prize of "Best Structured Product Distributor in CEE" announced every year by the magazine "Structured Products". An increase in in-house structuring capabilities was made possible by the introduction of a new IT system for trading, risk management and derivatives business.

High-quality products for institutional clients The sales initiatives in the corporate clients segment begun in 2005 was successfully continued in 2006. The range of tailor-made capital market products aimed at hedging risks in areas of foreign exchange, interest rates and liquidity was expanded and adjusted throughout the year. At the same time, service quality was improved by increased standardisation of back office processes.

Income from structured products for corporate clients on the interest and FX side increased several times over the previous year's figures to EUR 4.5 million, an important factor being the successful cooperation between the treasury sales and account management units.

All organisational measures such as risk management, IT and training required for rollout of the sales concept in the savings banks were completed on schedule. Accordingly, Erste Bank's high increases in earnings should be repeated in the savings bank sector in the coming year.

A further highlight of the year was the placing of two structured loans to the value of EUR 300 million with national and international institutional clients.

High demand for certificates and warrants. The certificates and warrants business strengthened in 2006. Along with capital guaranteed products, investment and leverage certificates completed the offering for retail customers. Over 1000 trading products such as turbo certificates and warrants were listed on the Vienna and Stuttgart stock exchanges. Average monthly turnover was around EUR 10 million. To increase recognition of these products, international roadshows, trade fairs and lectures were held in the most important financial centres in Germany and CEE as well as several training events for Erste Bank and savings bank branches. These are already generating new business with international institutional investors. Erste Bank also became a founding member of the Zertifikate Forum Austria.

Investment Banking profits from the market environment. As mentioned under the Large Corporates segment, 2006 was a good year for capital market transactions. Structural improvements such as the merging of treasury and investment Banking functions and the use of new technologies in share order routing and order management also contributed to the favourable results. Overall market shares remained high in Austria (12%), Hungary (17%) and the Czech Republic (11%).

Financial review

in EUR million	2006	2005
Pre-tax profit	158.9	138.1
Net profit after minorities	123.7	102.3
Operating result	144.2	139.2
Cost/income ratio	41.5%	40.3%
ROE based on net profit	51.2%	36.5%

Pre-tax profit improved by EUR 20.9 million from EUR 138.1 million to EUR 158.9 million. Net profit after minority interests rose by EUR 21.4 million, or 21%, from 102.3 million to EUR 123.7 million. Return on equity increased from 36.5% to 51.2%, while the cost/income ratio was 41.5%.

Net interest income was EUR 68.3 million as a result of a fall in the asset liability management result caused by interest rate trends. The net trading result increased slightly this year, up 4.1% at EUR 87.9 million. Commissions showed an extremely satisfactory improvement as a result of strong equity business, both in the primary and secondary markets, rising by EUR 19.4 million or 27.4% from EUR 70.9 million to EUR 90.3 million.

The increase in general administrative expenses was primarily due to investments in IT and personnel in the strategic sales and structured investment products segments. Other result advanced by EUR 15.9 million from a loss of EUR 1.1 million to EUR 14.8 million, primarily as a result valuation gains from non-trading securities, which were not posted in the previous year.

OUTLOOK 2007

In 2007, the focus of the Treasury and Investment Banking segment will again be on innovative structured products. The product range will be expanded by new asset classes such as commodities. Erste Bank and the savings banks will continue to work closely on the distribution of structured investment products with the aim of establishing this product line as a permanent component of asset allocation in the branches and improving expertise through training initiatives. Trading will see further investments into structuring capabilities in order to provide branches with more innovative products in future and to increase the level of in-house production in selected asset classes. The customer base is also expected to grow, on the one hand by implementing the successful Austrian distribution concept in the savings banks and in Central and Eastern Europe, and on the other hand by acquiring new customers in Western Europe. Certificates and warrants should see the double-digit growth rates in 2007.

CENTRAL AND EASTERN EUROPE (CEE)

The Central and Eastern Europe segment comprises Erste Bank's operations in the CEE transformation economies, covering primarily Česká spořitelna, Banca Comercială Română, Slovenská sporiteľňa, Erste Bank Hungary, Erste Bank Croatia and Erste Bank Serbia. While the share purchase agreement for Ukrainian Bank Prestige was signed on 20 December 2006, it will only be consolidated following closing of the transaction.

CZECH REPUBLIC

Business profile. The Czech Republic segment includes Česká spořitelna and its subsidiary operations. Česká spořitelna is the leading retail bank in the country and the largest among Erste Bank's operations in CEE. It serves some 5.3 million retail, SME and large corporate clients; it operates a network of 637 branches and 1,090 ATMs. By 2006 Česká spořitelna has issued more than 3 million bank cards, including almost half a million credit cards. The bank's asset management, building society, factoring, pension fund and life insurance subsidiaries also occupy leading positions in their respective fields.

ECONOMIC REVIEW

In 2006 the Czech economy repeated its extraordinarily strong performance of 2005. Real GDP growth came in at an estimated 6%, supported by strong exports and a marked acceleration of domestic demand. GDP/capita moved into five digits for the first time ever, reaching some EUR 11,000, among the highest levels in Central and Eastern Europe. A positive development was also registered in the unemployment rate which stood at 7.8% in 2005 and improved somewhat to about 7.3% thanks to the positive overall economic environment.

Inflation remained a non-event and the Czech Crown continued to appreciate against the Euro both in nominal and real terms. Correspondingly, the Czech National Bank stemmed further upward pressure against its currency by increasing its short term reference rate at a slower pace than the European Central Bank raised its own reference rate. At 2.5% Czech rates remained below Euro levels, but gained 50 basispoints compared to year-end 2005.

The overall positive picture was rounded off by a stable, yet negative current account balance, which was supported by an improving trade balance, which remained positive for the second year running due to increased FDI inflows into export industries. The general

Key economic indicators – Czech Republic

	2003	2004	2005	2006e
Population (ave, million)	10.2	10.2	10.2	10.2
GDP (nominal, EUR billion)	80.9	87.2	99.7	112.6
GDP/capita (EUR thousand)	7.9	8.5	9.7	11.0
Real GDP growth	3.6%	4.2%	6.1%	6.0%
Domestic demand contribution	4.4%	3.2%	1.6%	4.0%
Exports (share of GDP)	61.8%	71.0%	71.7%	74.1%
Imports (share of GDP)	64.1%	71.6%	69.8%	71.7%
Unemployment (Eurostat definition)	7.7%	8.2%	7.8%	7.3%
Consumer price inflation (ave)	-0.1%	2.6%	1.6%	2.1%
Interest rate (1m interbank offer rate)	2.3%	2.3%	2.0%	2.2%
EUR FX rate (ave)	31.8	31.9	29.8	28.3
EUR FX rate (eop)	32.4	30.5	29.0	27.5
Current account balance (share of GDP)	-6.5%	-6.3%	-2.7%	-3.1%
General government balance (share of GDP)	-6.6%	-2.9%	-3.6%	-3.5%

Source: Eurostat, Czech National Bank.

government balance remained virtually unchanged versus 2005 at an estimated -3.5% of GDP, as did gross government debt at a very manageable 31% of GDP.

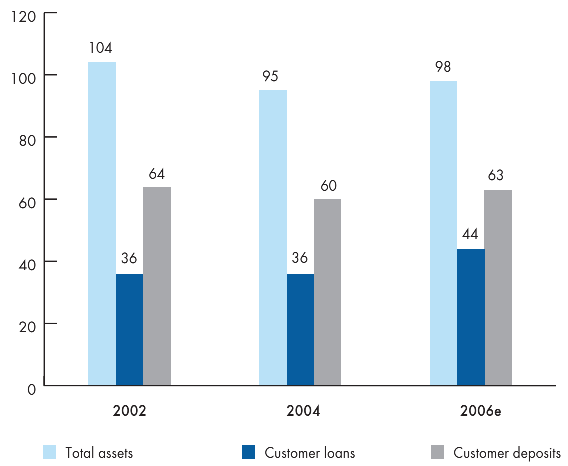
MARKET REVIEW

The banking market benefited from the prevalence of two factors that do not frequently go hand in hand over a longer period of time: continued strong economic growth and continued low interest rates. While banking assets grew only slightly faster than the overall economy, and hence stayed at essentially flat at 98% of GDP in 2006, sector growth was driven by customer loans, which lept from 40% of GDP a year ago to above 44% in 2006. Within loans, retail loans acted as the growth engine. Corporate loans, on the other hand, experienced a weaker year due to the excellent economic environment and the resulting positive liquidity situation of many large corporate customers.

levels seen in developed Western economies. FX lending, which played a dominant role in markets with higher nominal interest rates such as Hungary, Romania or Croatia, remained insignificant in the Czech Republic in 2006.

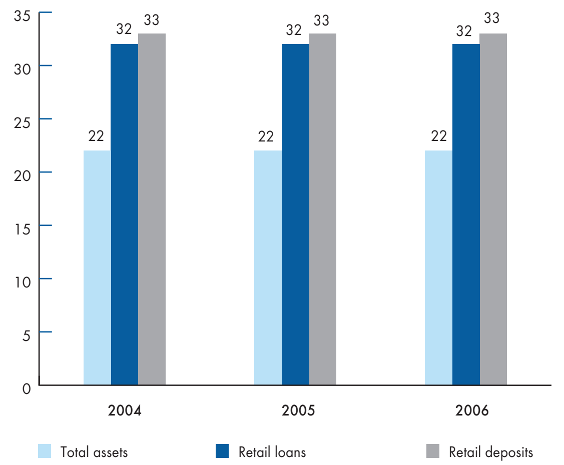
On the back of the positive overall market environment Česká spořitelna once again maintained its No. 1 position in retail banking and continued to rank among the three leading banks in terms of total assets. Its market share of total assets remained stable at 22% in 2006. In terms of retail products Česká spořitelna maintained its dominant position owning almost one third of the retail loan and deposit market. In high growth segments of the market, such as residential mortgages, it faired even better, carving out a market share of almost 33%. Česká spořitelna was similarly successful in credit and debit cards, as well as current accounts.

Financial intermediation – Czech Republic in % of GDP



Source: Czech National Bank, Eurostat.

Market shares – Czech Republic in %



Source: Czech National Bank, Česká spořitelna.

Retail loans enjoyed the fifth consecutive year of annual growth rates in the order of 30%, driven by continued strong demand for housing loans, including mortgages, which grew solidly above 30% for the eighth year running. Measured as a share of GDP retail loans rose to nearly 17%; at the same time housing loans reached a level of nearly 12%. Both these figures are still substantially below the

BUSINESS REVIEW

Strategy. In 2006 Česká spořitelna launched a new and ambitious strategic initiative – "First Choice Bank" – that aims to cement the bank's position as the country's most respected and dynamic bank. A bundle of measures will yield benefits for clients and employees alike and lead to a sustainable increase in profitability. The strategic goal to grow the loanbook, especially in the key retail segment, with a view to leverage the quickly expanding deposit base, remains in place.

Highlights 2006

First Choice Bank initiative launched. The main objective of First Choice Bank is to make banking easier and more comfortable for clients whilst instilling a corporate culture that makes employees more professional and confident. The initiative will also entail investments into infrastructure, including branch refurbishment, training and technology and hence lay the foundations for increased product sales, profitability and efficiency in future years. Specific targets relate to mortgages, number of SME clients, number of issued credit cards, number of ATMs and the cross-selling ratio. First Choice Bank is expected to be fully implemented by the end of 2008.

Loan growth across the board. The buoyant Czech economy as well as low interest rates again underpinned strong growth of the loan book. Growth was particularly pertinent in the key retail segment, which continued to expand faster than corporate loans and easily maintained a 50%+ share of the loan book. In total the loan book of Česká spořitelna grew to EUR 10.8 billion, up from EUR 9.0 billion a year ago, while retail loans advanced from EUR 4.6 billion to EUR 6.3 billion. Within retail loans private mortgages grew the strongest at 41%. Due to excellent liquidity situation of corporate customers, resulting in lower utilisation of approved credit limits, the large corporate segment was the only part of the loan book that showed an actual reduction in volume.

Increased uptake of electronic banking, bank cards. 2006 saw a new record high in electronic banking user numbers. Unique users reached 1.1 million in 2006, up 10% on 2005, while the number of transactions rose at an even faster rate of almost 55% in comparison with 2005. The total number of active bank cards exceeded 3 million for the first time in 2006, which represents a 5% increase. Issued credit cards grew at a dynamic rate of 31% in 2006, reaching almost half a million issued cards. As a result Česká spořitelna's market share in credit cards issued by Czech banks equalled almost 52%.

International and local recognition. As in previous years Česká spořitelna has been awarded a number of local and international awards in 2006. In the local MasterCard Bank of the Year survey, Česká spořitelna was named "Most Trustworthy Bank in the Czech Republic" as well as "Bank of the Year 2006". In the product area Česká spořitelna was declared "The Best Mortgage Bank of the Year". Among international awards the most notable is Česká spořitelna's No. 1 ranking among financial institutions and overall No. 2 ranking among more than 100 companies that participated in the prestigious European Customer Relationship Management competition of technology market research firm Gartner.

Financial review

in EUR million	2006	2005
Pre-tax profit	451.7	352.6
Net profit after minorities	324.4	256.8
Operating result	486.8	377.6
Cost/income ratio	55.7%	59.3%
ROE based on net profit	40.7%	40.0%

The group result of Česká spořitelna increased by EUR 67.6 million, or 26.3%, from EUR 256.8 million to EUR 324.4 million compared to the previous year. The operating result rose by EUR 109.2 million (+28.9%), from EUR 377.6 million to EUR 486.8 million.

A strong expansion in lending business, accompanied by a positive interest rate trend, led to net interest income increasing by EUR 122.1 million (+20.9%), from EUR 583.5 million to EUR 705.6 million. Risk provisions for loans and advances increased by EUR 18.8 million (+55.8%), primarily as a result of the massive expansion in lending business and the discontinuance of general reserve releases of 2005.

Net commission income grew from its already very high level, increasing by EUR 37.9 million (+13.2%) from EUR 287.0 million to EUR 324.9 million. Revenue increased from the rapidly growing lending business, as did income from securities transactions. The net trading result also exhibited a positive trend, improving by EUR 5.7 million (+11.6%) from EUR 49.4 million to EUR 55.1 million, thanks on the one hand to another strong result from interest rate derivates and, on the other, to a good result from the foreign exchange and currency business.

General administrative expenses increased by EUR 63.1 million (+11.5% or, currency-adjusted, +5.8%) compared to the previous year, from EUR 550.1 million to EUR 613.2 million. This rise was the result of higher depreciation requirements, performance-linked personnel expenses and expenditure connected to current group projects. Other result increased from EUR 8.7 million to EUR 17.4 million, especially due to valuation income from the property portfolio.

Thanks to the highly positive profit trend, the operating result improved by 28.9% from EUR 377.6 million to EUR 486.8 million, although the favourable trend in the CZK/EUR exchange rate (+5.1%) should also be noted. The cost/income ratio improved from 59.3% to 55.7% and the return on equity stood at 40.7%.

OUTLOOK 2007

The Czech economy is expected to turn in another strong performance in 2007. In addition, the First Choice Bank initiative will play an integral role in setting Česká spořitelna on a more ambitious growth path and will help maintain its leadership position in the retail segment and expand its position in SME and corporate banking. The most immideate effect will be faster net profit growth of at least 15% in 2007, maintainance of a return on equity in excess of 20% and a reduction of the cost/income ratio to below 53%. All targets relate to local, consolidated results.

ROMANIA

Business profile. The Romania segment comprises Banca Comercială Română (BCR) and its subsidiaries. BCR is the leading financial services group in Romania. In addition to banking, BCR is also the No. 1 in leasing, and asset management and is well positioned in the developing insurance and brokerage markets. BCR is also an important player in neighbouring Moldova. The bank has 3.5 million retail and corporate customers and operates a fast growing network of 473 branches.

ECONOMIC REVIEW

In 2006 Romania returned to the Top 3 of EU growth leaders trailing only Estonia and Latvia, after a temporary blip related to floods in 2005. GDP growth averaged 7.2% while GDP/capita moved ahead even faster to an estimated EUR 4,500 thanks also to the appreciation of the local currency. As in the past, growth was driven by strong domestic demand and especially resurgent private consumption. Unemployment remained fairly tame at 8.2%, thanks to the strong economy that absorbed those laid off in labour-intensive industries.

The Romanian currency continued its strong appreciation in 2006, while the central bank maintained its restrictive policy stance with a view to push inflation down even further. The mix of measures applied included hikes in the reference refinancing rate from 7.5% in 2005 to 8.75% in 2006 as well as stringent reserve requirements on foreign exchange and local currency liabilities of banks in order to stem credit growth. The inflation rate duely obliged and declined to a new post-transformation low of 6.6%, a trend which is set to continue in the medium term.

In having a sizable current account deficit, Romania shared a common fate with many other countries that were in the middle of an economic catch-up process in 2006. Record foreign direct investment of nearly EUR 10 billion acted as a mitigant, though. The budgetary situation remained benign. Neither the general government balance nor gross government debt are at unsustainable levels; the latter stood at only 14% in 2006 and is thus among the lowest in the entire European Union.

Key economic indicators – Romania

	2003	2004	2005	2006e
Population (ave, million)	21.7	21.7	21.6	21.6
GDP (nominal, EUR billion)	52.6	60.8	79.3	96.9
GDP/capita (EUR thousand)	2.4	2.8	3.7	4.5
Real GDP growth	5.2%	8.4%	4.1%	7.2%
Domestic demand contribution	10.2%	14.6%	11.2%	10.3%
Exports (share of GDP)	34.7%	35.9%	33.0%	34.0%
Imports (share of GDP)	42.2%	45.0%	43.4%	45.6%
Unemployment (Eurostat definition)	7.4%	8.2%	8.3%	8.2%
Consumer price inflation (ave)	15.3%	11.9%	9.1%	6.6%
Interest rate (1m interbank offer rate)	20.0%	20.5%	9.3%	8.7%
EUR FX rate (ave)	3.8	4.1	3.6	3.5
EUR FX rate (eop)	4.1	3.9	3.7	3.4
Current account balance (share of GDP)	-4.8%	-12.7%	-8.7%	-10.3%
General government balance (share of GDP)	-1.7%	-1.3%	-0.4%	-1.4%

Source: Eurostat, National Bank of Romania.

MARKET REVIEW

The Romanian banking market is one of the most underpenetrated among Erste Bank's markets and hence offers the best growth opportunities. Financial intermediation levels, while rising at a fast and almost linear pace, are still at substantially lower levels than in either mature markets or even more developed CEE countries. The broadest measure, assets/GDP reached 51% in 2006, after standing at only 32% in 2002. Growth was even more pronounced in customer loans. They grew by more than 50% annually in the period under review, leading to a doubling of the loans/GDP ratio from just below 15% to 27% over the last five years.

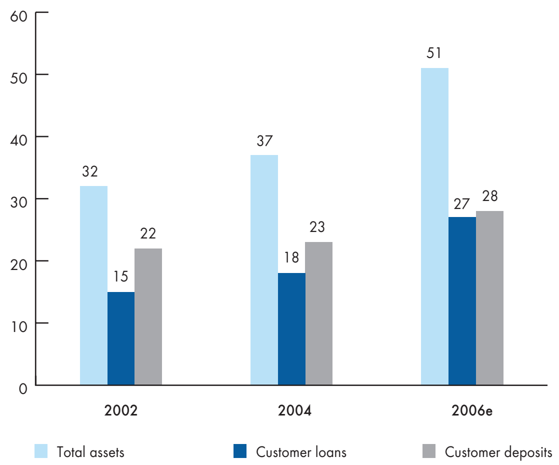
Retail loans enjoyed the strongest growth, albeit from a very low base, in line with country's rapid economic development over the past years. After standing at only 1.4% of GDP in 2002, this ratio exploded to 11.5% by the end of 2006. Mortgage loans, which are major growth drivers in more developed CEE markets, were still at negligible levels at about 2% of GDP.

Structurally the market has striking similarities with the Hungarian banking market. While the fact that it is dominated by foreign owners is not particularly noteworthy in a CEE context, the fact that there is only one dominant player is. BCR is by far the market leader, trailed by banks that engage in a healthy, competitive behaviour but do not employ irrational pricing strategies.

Another peculiarity of the Romanian market is the strong, albeit declining, interest in foreign exchange lending. Due to various restrictions by the central bank, the most prominent of which is a 40% reserve requirement on foreign exchange liabilities of banks; the ratio of such loans to total loans outstanding has dropped markedly to below 50% in 2006, a trend that was also supported by increasingly competitive local currency products.

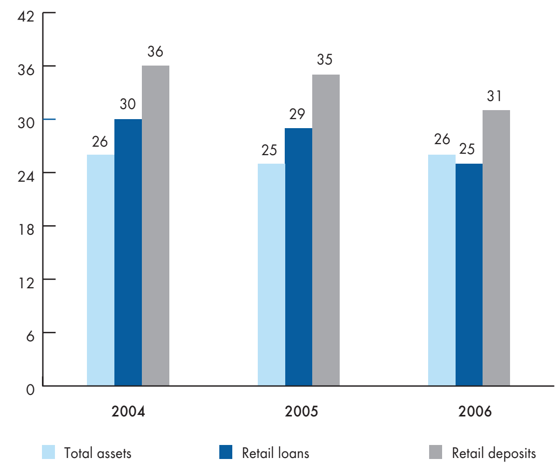
Within this environment BCR has consolidated its market position. Thus, the market share in terms of assets reached 26% in December 2006 compared to 25% as at end-2005. Customer loans were the main growth driver, posting a significant increase 53% compared to last year, and made BCR the main finance provider in the country.

Financial intermediation – Romania
in % of GDP



Source: National Bank of Romania, Eurostat.

Market shares – Romania
in %



Source: National Bank of Romania, BCR.

In the area of retail loans and deposits, the bank focused on improving quality and pricing in order to consolidate its market position and also started reorganisation and streamlining of operations.

BUSINESS REVIEW

Strategy. BCR's main strategic goal is to maintain its leading market positions in all business segments and to better leverage its brand among customers. The bank will do so by further diversifying its retail product offering both on the asset and liability side, and by investing into its multi-channel distribution infrastructure. In so doing BCR will stick to its cautious risk management approach and adjust risk management techniques to group standards and to the requirements of Basel II. Improvements in operational efficiency will also remain high on the agenda.

Highlights 2006

Integration and Development Programme (IDP) launched. The IDP was officially launched immideately upon completion of the acquisition and will ensure the alignment of processes and organisational structures to Erste Bank's standards, with a view to efficiently integrate into the group's structures. In 2007, the most important IDP projects will be finalised, aiming at, among others, adjusting the organisational model of the branch network, further consolidation of back office activities, as well as clear separation of risk management from business activities. The IDP will result in enhanced operational efficiency and improved profit generating capacity.

Fast growth in retail and SME business. 2006 saw outstanding growth in key future growth segments. Within retail, credit card related loans nearly tripled thanks to the launch of many co-branded credit cards, while consumer loans were up an impressive 70% to EUR 2.3 billion. At the same time, BCR was the leader in terms of its POS network size. This will be a competitive advantage for future business development and for further growing net commission income. The SME and municipalities segments also recorded strong increases of 77% and 160% respectively, on the back of a strong surge in economic growth over the past year.

First EU-offices opened. In 2006 BCR opened 8 regional offices that provide full information on the impact of EU accession, consulting services as well as a large range of products for financing and refinancing of investment projects in order to facilitate access to European post accession funds. BCR will build on its experience gained in the pre-accession period to facilitate better absorption of the funds allocated to Romania.

Implementation of new IT system. One of the major highlights in the back office area was the timely implementation of a new integrated IT system, SIBCOR v2, which will contribute to faster and more efficient management of growing business volumes. The new system will yield first tangible benefits in 2007.

Financial review

in EUR million	2006	2005*
Pre-tax profit	67.9	–
Net profit after minorities	34.6	–
Operating result	87.7	–
Cost/income ratio	55.1%	–
ROE based on net profit	34.6%	–

*) No comparable segment contribution data available for 2005.

Banca Comercială Română is included in the group results for the first time as of 12 October 2006. Erste Bank's original stake of 61.9% in BCR has now been increased by another 7.3%, which was purchased from employees of BCR, bringing its stake to 69.2%.

Proportional net profit after minority interests stood at EUR 34.6 million, despite the restructuring provisions for staff measures and consulting expenses in particular, which amounted to approximately EUR 23 million in total. Of this amount roughly EUR 14 million impacted segment results. Of additional valuation requirements of EUR 25 million only EUR 9 million affected the segment result.

The valuation of customer stock required by IFRS 3 (purchase price accounting) and the associated linear depreciation of EUR 18 million for the period from 12 October 2006 through to 31 December 2006 was reported in other result of the Corporate Center, primarily to ensure comparability with all other segments. In view of the favourable trend in 2006, the targets set for 2009 are being maintained.

OUTLOOK 2007

2007 will be the first full year for BCR as a member of Erste Bank Group. The main focus will be on the successful completion of the main streams of the IDP, on a more focused development of retail banking activity, on an increase in real estate financing as well as on the active involvement in the distribution of EU post-accession funds. In addition, BCR will aim to develop its investment banking & corporate finance activities, with the purpose of providing more refined services and financial instruments to large corporates. In financial terms the bank will work towards achieving 40% average net profit growth on a EUR-basis to 2009 and a cost/income ratio of below 40%.

SLOVAKIA

Business profile. The Slovakia segment comprises Slovenská sporiteľňa (SLSP) and its subsidiaries. SLSP is the clear market leader in the Slovakian banking market. The former state savings bank serves some 2.5 million clients, equalling roughly 50% of the Slovak population, through a network of 271 branches and 555 ATMs. It is the market leader in retail as well as total deposits, and has retained the top spot in retail as well as total loans, gained in 2005. Its asset management and life insurance subsidiaries also hold prominent positions in their respective markets.

ECONOMIC REVIEW

The Slovakian economy motored ahead by an impressive 7.9% in 2006, driven by strong domestic demand and private investments as well as increased public consumption. GDP/capita rose to a new all-time-high of EUR 8,100. Unemployment, which still is one of the highest in all CEE countries, continued its very positive trend embarked on in 2005 and dropped to an estimated 13.5%, while disposable incomes posted real term gains. Overall, the Slovak economy benefitted from car production related investment inflows and in 2006 already boasted a higher car per capita output than, eg Germany.

Key economic indicators – Slovakia

	2003	2004	2005	2006e
Population (ave, million)	5.4	5.4	5.4	5.4
GDP (nominal, EUR billion)	29.2	33.9	38.1	43.9
GDP/capita (EUR thousand)	5.4	6.3	7.1	8.1
Real GDP growth	4.2%	5.4%	6.0%	7.9%
Domestic demand contribution	-1.3%	6.2%	8.6%	6.7%
Exports (share of GDP)	66.2%	65.7%	67.6%	76.3%
Imports (share of GDP)	68.2%	69.4%	72.8%	81.7%
Unemployment (Eurostat definition)	17.4%	18.1%	16.1%	13.5%
Consumer price inflation (ave)	8.5%	7.5%	2.7%	4.5%
Interest rate (1m interbank offer rate)	6.3%	4.8%	3.0%	4.1%
EUR FX rate (ave)	41.5	40.0	38.6	37.2
EUR FX rate (eop)	41.2	38.8	37.8	34.6
Current account balance (share of GDP)	-0.8%	-3.6%	-8.6%	-8.4%
General government balance (share of GDP)	-3.7%	-3.1%	-3.1%	-2.0%

Source: Eurostat, National Bank of Slovakia.

After a sharp drop in 2005, inflation registered the expected uptick in 2006. This was due to strong rises in administered prices in late 2005 and early 2006. Due to the tough monetary policy applied by the central bank – it raised the reference rate four times in 2006 to 4.75% – inflation is expected to retreat again in 2007. It should be noted that the rate increases failed to have any noticeable impact on either GDP or credit growth so far. The currency, though, appreciated strongly especially in the final quarter of the year along with the increased credibility of the new government and its plan to adopt the euro in 2009 as well as improved regional investor sentiment.

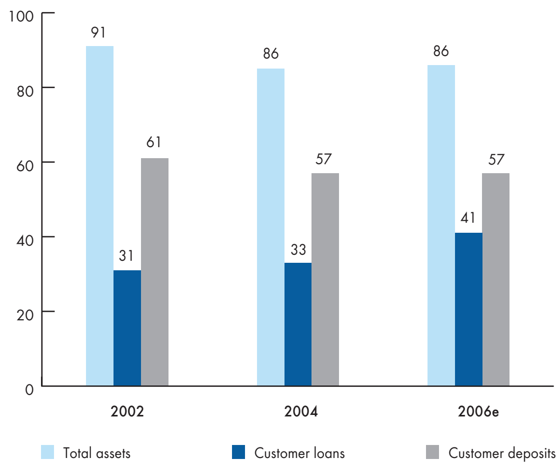
In 2006 the general government deficit narrowed slightly on to an estimated 3.5% of GDP; excluding pension reform costs this figure stood at an estimated 2.4% of GDP. At the same time, the current account deficit remained flat at an estimated 8.4% of GDP, on the back of strong domestic demand, but was covered to a healthy degree by foreign direct investment. While improvements in budgetary policy are required for timely Euro entry in 2009, gross government debt – standing at only 33% of GDP – will not be a stumbling block.

MARKET REVIEW

The banking sector enjoyed rapid growth on the back of a booming economy in 2006. While asset penetration declined year-on-year due to declining interbank business, loans continued to grow at a fast pace. Deposits maintained their high share of GDP compared to the past years. As in 2005, retail loans in general and housing loans in particular grew strongest thanks to rising disposable incomes, higher levels of job security and resulting increased private consumption. Retail loan penetration reached 14% of GDP, while housing loan penetration was just slightly above 5%, pointing towards further catch-up potential in the future.

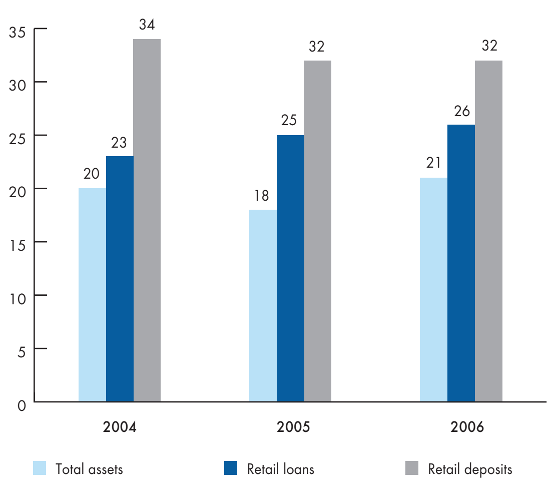
In the wake of the overall positive environment Slovenská sporiteľňa managed to further strengthen its leading position in most segments. Total asset market share rose to almost 21%, after a slight dip in the year before. The bank also outperformed its competitors in housing loans thanks to very successful product sales of CreditPLUS, a mortgage product for retail clients. Strong gains were also posted in corporate loans. On the deposit side, the bank was equally effective thanks to rising interest rates and innovative structured products. This resulted in double-digit deposit growth and the maintenance of market leadership.

Financial intermediation – Slovakia in % of GDP



Source: National Bank of Slovakia, Eurostat.

Market shares – Slovakia in %



Source: Slovenská sporiteľňa, National Bank of Slovakia.

BUSINESS REVIEW

Strategy. Slovenská sporiteľňa's strategy is geared towards maintaining its leadership position in deposits and loans. Apart from focusing on its core retail market, the small and medium enterprise business will be another source of growth. The strategy of acquiring SME clients through classic financing activities will continue to be pursued and should offer substantial cross-selling opportunities in the future. Unparalleled local presence will further support the SME growth strategy. In addition SLSP intends to attract large corporates by high quality service and competent advice, especially in fields of project and real estate financing.

Highlights 2006

Customer loans swiftly substitute expiring high-yield bonds. 2006 was another blockbuster year for loan growth. After recording growth of 55% in 2005, loan stock advanced at a 32% clip in 2006 to reach a level of EUR 3.6 billion. In comparison outstanding loans amounted to only EUR 1.3 billion just three years ago. This development was very timely as a large portfolio of high-yield government bonds that were received at the time of privatisation in lieu of bad loans, expired over the past years, including 2006. This put constant pressure on net interest income, but was in the end successfully compensated by strong customer loan business. This process has now run its course and hence any further loan growth should feed through to the bottom line.

Savings deposits with a twist back in fashion. A sustained rise in interest rates in 2006 and a worse than expected performance of most widely held investment funds due to the previously prevalent downward trend in rates returned the attention of customers to deposit products. As a result and after several years of stagnation deposit growth recovered into the double-digits in 2006. However, success in a very competitive market required innovation. To meet demand Slovenská sporiteľňa developed structured deposit products, with a guaranteed minimum performance and possible upside depending on the development of the underlying assets. In 2006 EUR 200 million worth of structured deposits were sold, translating into a market share of well above 30%.

Local and international awards. On top of a strong operating performance, Slovenská sporiteľňa once again won several awards in 2006 – it was named "Bank of the Year" by Euromoney and Slovak business weekly Trend.

Euro preparations launched. Slovakia is set to adopt the common European currency by 2009. This creates both a challenge and a unique opportunity for Slovenská sporiteľňa, which the bank plans to address by being the first in the market to be fully compatible and prepared for the Euro. In addition to adapting the systems to the new currency, the bank decided to completely re-design its front and back office systems and processes in line with the target system usedwithin the group. These measures should pave the way for future business growth and improved client service.

Financial review

in EUR million	2006	2005
Pre-tax profit	134.3	103.1
Net profit after minorities	107.7	89.1
Operating result	158.1	127.4
Cost/income ratio	53.9%	56.8%
ROE based on net profit	44.8%	50.3%

Net profit after minority interests jumped 20.9% from EUR 89.1 million to EUR 107.7 million.

Net interest income increased by 21.4% or EUR 42.2 million to EUR 197.3 million. The announced repayment of high-interest loans was more than compensated by a much greater than expected expansion in customer business and higher income from at-equity measured investments. Furthermore, the successful growth policy and the related provision of funds led to an increase in risk provisions from EUR 11.1 million to EUR 16.5 million.

The fact that net commission income remained practically unchanged from the previous year (EUR 82.8 million compared to EUR 82.5 million in 2005) was partly the result of the reclassification of fees into net interest income and one-off effects in the previous year. Adjusted for these changes, the result was moderate growth in net commission income of approximately 5%. Positive results from interest rate derivatives as well as increased foreign exchange earnings were decisive in increasing the trading result, which improved by EUR 6.0 million from EUR 14.9 million to EUR 20.9 million (+40.6%).

General administrative expenses increased by EUR 17.8 million from EUR 167.3 million to EUR 185.0 million (+10.6% or, currency-adjusted, +6.5%), the result of increased staff expenditure as well as growth in the area of IT and rental expenditure. Other result improved significantly by EUR 5.9 million, from EUR -13.2 million to EUR -7.3 million, primarily due to lower expenditure for statutory deposit insurance in 2006. Both the operating result (+24.1%) and net profit after minority interests (+20.9%) increased markedly despite a significantly higher tax rate.

The higher allocation of group capital due to the strong increase in lending volumes, however, led to a drop in the return on equity from 50.3% to 44.8%. The cost/income ratio improved significantly from 56.8% to 53.9%.

OUTLOOK 2007

Slovenská sporiteľňa as well as the overall banking market are expected to benefit from the continued economic expansion in 2007. Maintenance of the overall leadership position and reaching the top spot in SME banking are therefore realistic goals for the current year. In financial terms the bank targets net profit growth of at least 15%, a return on equity of above 20% and a cost/income ratio of below 54% in 2007. All targets related to local, consolidated results.

HUNGARY

Business profile. The Hungary segment includes the operations of Erste Bank Hungary and its subsidiaries. Following the successful merger with and integration of Postabank in 2003 and 2004, Erste Bank Hungary has become one of the decisive players in the Hungarian banking market. It has grown into the second largest retail bank with a market share of over 10% and the fifth biggest in respect of its balance sheet total; it also holds strong positions in the area of fund management and leasing. Erste Bank Hungary serves nearly 900 thousand private customers in its nationwide network of 182 branches. Importantly, it is also among the leaders in terms of efficiency and profitability and was awarded the title of “Best Financial Institution of the Country” in 2005 by leading Hungarian business magazine Figyelő.

ECONOMIC REVIEW

The key development of 2006 was the sudden, but unsurprising realisation that economic policy, mostly in terms of fiscal policy has so far failed to address the key issues, ie the excessive budget and current account deficits. Following the general elections in spring and the re-election of the incumbent government, fiscal policy was swiftly adjusted through the introduction of austerity measures. These were mostly geared towards raising more revenue for the budget through a series of tax hikes: corporate income tax was raised from 16% to 20% as of September, personal income tax and value added tax all rose as of September 2006. While the special banking tax of 8% stayed in place until the end of 2006, it was reduced to 5% on interest income from state subsidised mortgage loans at the start of 2007. All in all these measures are expected to lead to muted disposable income growth, if at all, and hence dent domestic demand in 2007 and 2008.

Despite these turbulences the economy performed well in 2006. Real GDP growth equalled an estimated 4% while GDP/capita reached a new high of EUR 8,900, helped by exceptionally strong exports, which also led to an narrowing of the trade deficit. Naturally, government consumption also contributed to growth. Unemployment edged up slightly from 7.3% to 7.4%, on the back of the deteriorating economic outlook.

Key economic indicators – Hungary

	2003	2004	2005	2006e
Population (ave, million)	10.1	10.1	10.1	10.1
GDP (nominal, EUR billion)	74.7	82.3	88.8	89.2
GDP/capita (EUR thousand)	7.4	8.1	8.8	8.9
Real GDP growth	4.1%	4.9%	4.2%	4.0%
Domestic demand contribution	6.5%	4.2%	0.6%	1.7%
Exports (share of GDP)	60.7%	63.6%	66.4%	76.5%
Imports (share of GDP)	64.6%	66.7%	67.8%	77.1%
Unemployment (Eurostat definition)	5.9%	6.1%	7.3%	7.4%
Consumer price inflation (ave)	4.7%	6.8%	3.5%	4.0%
Interest rate (1m interbank offer rate)	8.4%	11.5%	7.2%	6.9%
EUR FX rate (ave)	253.6	251.7	248.1	264.3
EUR FX rate (eop)	262.5	246.0	252.9	251.8
Current account balance (share of GDP)	-7.9%	-8.4%	-6.8%	-7.3%
General government balance (share of GDP)	-6.3%	-5.3%	-6.5%	-10.1%

Source: Eurostat, Hungarian National Bank.

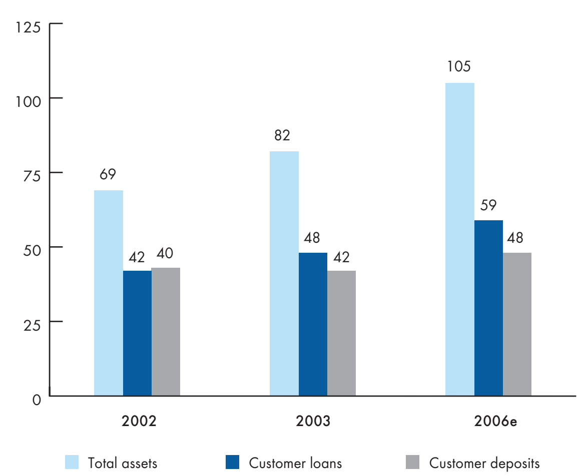
2006 was also a volatile year for the local currency and short-term interest rates – although much less so than commonly perceived. In the first half of the year the Forint came increasing pressure as the market worried about the ballooning current account and budget deficits. Following concerted action by both the government, which announced the austerity package, and the central bank, which gradually raised its reference refinancing rate, the currency moved back to where it started the year, while the reference rate of the National Bank ended the year 2%-points higher than 2005, at 8%. 2006 was proof of the historic fact that interest rate risk is higher compared to currency risk, a fact that also explains the strong demand for foreign exchange loans. The major point of worry, the budget deficit closed the year at record high of above 10% of GDP, while the much maligned current account deficit remained solidly negative, but in line with both the historic track record and levels seen in other fast growing CEE countries.

MARKET REVIEW

Hungary has benefited from a sound banking sector, sustained market-oriented reforms and large-scale foreign direct investments since the beginning of transition. Accordingly, banking maturity benchmarks took a much more linear development than either in the Czech Republic or Slovakia. Asset/GDP reached a level of 105% in 2006, up strongly on 69% in 2002. Loan penetration followed a similar trend, rising from 42% in 2002 to 59% in 2006. Over the same period housing loan penetration more than doubled from 4.5% to 11.6%, and accordingly was the major driver of loan growth. Deposit penetration also advanced, even though to a lesser degree, reflecting the increased uptake of more sophisticated investment products, such as funds and life insurance policies.

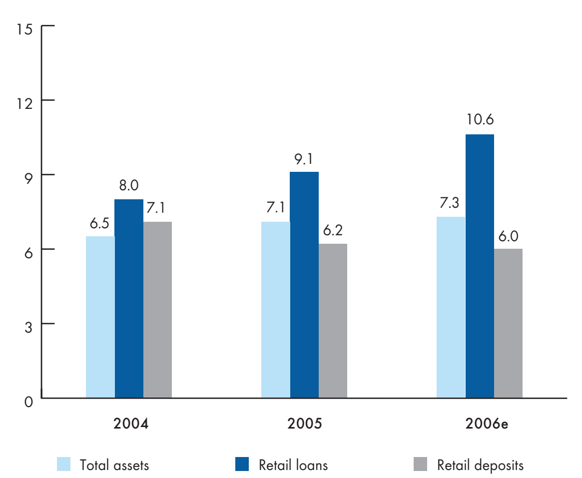
As for Erste Bank Hungary, it successfully increased its total asset market share from 7.1% in 2005 to 7.3% 2006. It ranked second by branch numbers and clients. The slight decline in retail deposit market share has to be viewed against the strong increase in fund management market share, which grew from 10.2% at the end of 2005 to 13.6% at the end of the past year. Market shares in retail lending also developed positively, especially in housing finance where Erste Bank Hungary's share improved to 11.5% from 9.1% a year ago thanks to newly introduced and attractive products and the expanded branch netwok. In addition, agents continued to play an important role.

Financial intermediation – Hungary
in % of GDP



Source: Hungarian National Bank, Eurostat.

Market shares – Hungary
in %



Source: Erste Bank Hungary, Hungarian National Bank.

The dominance of foreign exchange loans remained a feature of the Hungarian banking market in 2006. The vast majority of retail loans were disbursed in Swiss Franks in the past year. The risks associated with foreign exchange lending were limited by prudent loan-to-value ratios, especially in the case of mortgages and a central bank that had currency stability firmly in its sights.

BUSINESS REVIEW

Strategy. The main strategic goal of Erste Bank Hungary – in line with overall group strategy of eventually achieving at least 15% -20% retail market share in all its markets – is the expansion of its market position in the Hungarian market. Based on its strategic objective spanning 3 to 5 years, the bank aims to increase its market share in respect of retail services to 20% and to 10%–15% in the market of micro and small enterprises. One means by which the bank plans to achieve this is by further deepening its relationship with the Hungarian Post Office: in return for using their outlets as a secondary distribution network, Erste Bank Hungary supplies them with modern banking products ranging from current accounts to bank cards and investment funds.

Highlights 2006

Mortgages drive loan growth. In 2006 the loan growth story continued unabated. Most importantly, Erste Bank Hungary outgrew the market in most of the segments and has comfortably maintained its No. 2 position in housing finance. The bank's overall loan book grew to EUR 5.1 billion, or 22% versus 2005, while retail loans advanced even faster by 42% to EUR 2.1 billion and mortgage loans eclipsed even the latter, powering ahead by 45% to a sizable EUR 1.8 billion. Due to the relatively high level of nominal interest rates in Hungary FX loans in general and FX mortgages in particular – mostly denominated in Euro or Swiss Franks – continued to be the product of choice for most customers.

Postal cooperation yields tangible success. The main attraction of the collaboration with the Hungarian Post Office is access to an additional distribution channel without the fixed costs traditionally associated operating such channels. The Post Office benefits from an extended and modern product portfolio of simple banking products, and additional revenue streams. After launching the partnership in 2004, 2006 was the first year that yielded tangible success: the number of bank accounts surpassed the 100 thousand mark for the first time, while investment fund volume sold through the postal network nearly doubled to EUR 100 million. Loan and particularly personal loan volumes enjoyed similarly positive growth – the former reached a total of EUR 20 million in 2006. Last but not least, the number of on-line post offices reached 320 in the past year.

Progress in SME business. Erste Bank Hungary considers the SME business as one of the key growth opportunities in the Hungarian market. The target customer base numbers 22,300 enterprises with a turnover of between EUR 0.8 million and EUR 80 million. In 2006 Erste Bank Hungary made solid progress both in terms of customers growth and market share improvement: a total of 621 new accounts were added, translating into a account share 13.7% compared to 12.3% in 2005, while asset market share rose from 14.3% to 15.4% and liability market share grew from 8.9% to 14.2%.

Strong positions in leasing maintained. Despite a declining new car market and increased competition, Erste Bank Hungary maintained its No. 3 position in the car leasing market in 2006. This development was supported by a widening product portfolio covering financing for leisure products, financing between private individuals and loans with integrated insurance policies; the successfully operating agent network and seamless back-office processes also contributed to this success. In motorcycle financing new strategic partnerships with major motorcycle importers for Honda, Kawasaki and Yamaha were key to maintaining Erste Bank Hungary's leadership position in this segment. In the area of used cars, Erste Bank Hungary established a relationship with AAA-Auto, a subsidiary of the biggest used car dealer in CEE, in order to strengthen Erste Bank Hungary's presence in this market.

Financial review

in EUR million	2006	2005
Pre-tax profit	111.8	98.9
Net profit after minorities	85.2	78.1
Operating result	168.0	132.6
Cost/income ratio	55.2%	58.4%
ROE based on net profit	31.0%	40.4%

Erste Bank Hungary's result in 2006 was very positive. Net profit before tax and minority interests rose by EUR 13 million from EUR 98.9 million to EUR 111.8 million. Net profit after minority interests increased by EUR 7.1 million from EUR 78.1 million to EUR 85.2 million, although the tax increases effective 1 September 2006 for combating the budget deficit had the expected negative effect. The cost/income ratio improved significantly from 58.4% to 55.2%, while return on equity sank from 40.4% to 31% as a result of the higher capital allocation, which in turn was induced by the strong increase in lending volumes.

Net interest income increased by EUR 32.2 million from EUR 219 million to EUR 251.2 million, or 14.7%, primarily as a result of growth in the area of customer lending. The increase in risk provisions from EUR 17.1 million to EUR 34.2 million was on the one hand was due to first-time consolidation effects, which noticeably reduced this figure in 2005, and on the other to strong growth in customer lending.

Net commission income increased by EUR 23.6 million, or 36.4%, from EUR 64.8 million to EUR 88.4 million, with the positive trend in lending fees and payment transaction commissions contributing decisively to this increase. General administrative expenses rose by EUR 21.1 million or 11.4%, from EUR 185.8 million to EUR 206.9 million, primarily due to higher expenses for staff and marketing in connection with the expansion of the branch network. Other result decreased by EUR 5.4 million from EUR -16.7 million to EUR -22 million compared to the same period last year.

The increase in the tax position from EUR -20.6 million to EUR -26.3 million is the result of the statutory increase in corporation tax from 16% to 20% from September 2006. As in 2005, the dedicated tax for credit institutions and leasing companies of 8% was included in this item.

OUTLOOK 2007

By common consensus 2007 is expected to bring an economic and banking market slowdown for Hungary. Despite the more challenging conditions Erste Bank Hungary is confident to achieve net profit growth in the order of 15%, a return on equity of above 20% and a cost/income ratio of less than 54%. This will be achieved through a mix of tight cost control, a slower network expansion and a further leveraging the successful cooperation with the Hungarian Post Office. In addition the bank will continue to offer FX loans due to the more attractive repayment charateristics for clients and well manageable risk for the bank.

CROATIA

Business profile. The Croatia segment includes the operation of Erste Bank Croatia (EBC) and its subsidiaries. EBC is one of the largest and fastest-growing banking institutions in Croatia. Its client base numbers more than 630 thousand and is serviced through a nationwide network of 112 branches and 1,736 employees. EBC commands double-digit market shares in most segments and is particularly successful in the areas of retail and small and medium enterprise banking. In addition to a comprehensive portfolio of banking services, EBC is highly successful in distributing a wide array of para-banking products in the areas of asset management, life insurance, securities brokerage, leasing and pension funds. In several of these segments, most notably asset management, securities trading and leasing, EBC occupies leading positions.

ECONOMIC REVIEW

In 2006 Erste Bank Croatia benefited from continued stable growth of the Croatian economy. GDP grew by an estimated 4.6% in 2006, while GDP/capita reached a level of some EUR 7,600. Strong domestic demand in the form of private consumption and public investments was the major growth driver. Exports did not contribute significantly to overall growth, but still played an important role through the generation of substantial tourism revenues. The unemployment rate improved materially to an estimated 11.7% in 2006, down from 12.6% in the previous year.

Annual inflation remained relatively stable at 3.2% in 2006. The Croatian National Bank remained commited to exchange rate stability, mainly through extensive monetary policy interventions. As a result the Croatian currency, the Kuna, remained unchanged against the Euro. In addition the central bank continued its quest to curb foreign indebtedness, by further tightening reserve requirements on banks' foreign exchange liabilities.

On the fiscal side, the general government deficit improved to an estimated 3.0% of GDP in 2006, a solid improvement on the previous year. The current account deficit expanded from 6.3% to 7.0%, due to a slight year-on year deterioration of the trade balance, but was well covered by record foreign direct investments that were related to increased cross-border M&A as well as privatisation activity.

Key economic indicators – Croatia

	2003	2004	2005	2006e
Population (ave, million)	4.4	4.4	4.4	4.4
GDP (nominal, EUR billion)	26.2	28.4	30.9	33.7
GDP/capita (EUR thousand)	5.9	6.4	7.0	7.6
Real GDP growth	5.3%	3.8%	4.3%	4.5%
Domestic demand contribution	9.1%	3.5%	3.7%	5.0%
Exports (share of GDP)	45.8%	46.2%	45.9%	46.5%
Imports (share of GDP)	55.3%	54.2%	53.3%	54.1%
Unemployment (Eurostat definition)	14.3%	13.8%	12.6%	11.7%
Consumer price inflation (ave)	1.8%	2.1%	3.3%	3.4%
Interest rate (1m interbank offer rate)	5.3%	7.0%	6.0%	4.2%
EUR FX rate (ave)	7.6	7.5	7.4	7.3
EUR FX rate (eop)	7.6	7.7	7.4	7.4
Current account balance (share of GDP)	-7.4%	-5.3%	-6.3%	-7.0%
General government balance (share of GDP)	-4.5%	-5.0%	-4.2%	-3.0%

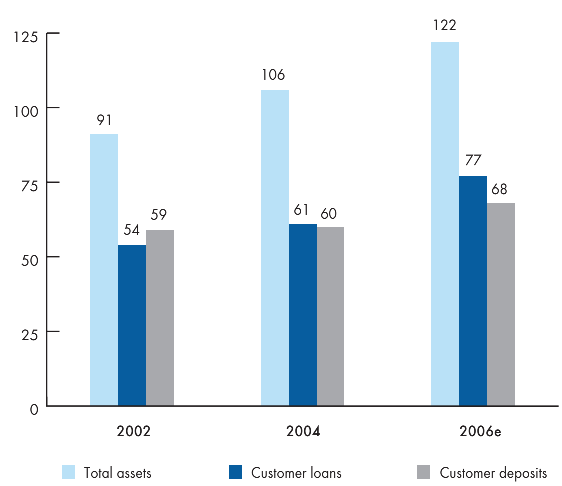
Source: Croatian National Bank, Eurostat.

MARKET REVIEW

The Croatian banking system ranks among the most developed CEE markets in terms of banking intermediation levels. Its continued growth was supported by a stable economic environment. The asset/GDP ratio stood at 122% in 2006, up strongly from 91% recorded in 2002. Growth of the sector was mainly driven by the asset side, in particular by household loans which rocketed from 24% of GDP to 39% over the same period. As was the case in Erste Bank's other central and east European markets, growth within household loans was fuelled by strong demand for residential mortgages: the housing loan/GDP ratio leapt from 5% in 2002 to 15% in 2006. On the liability side the deposit-to-GDP ratio rose from 59% in 2002 to 68% in 2006; growth in penetration was particulary strong in 2006 as banks turned to local funding sources in the wake of high reserve requirements on foreign exchange liabilities.

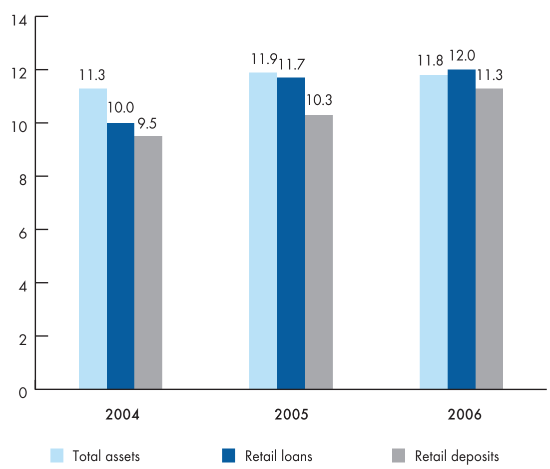
As in Hungary and in contrast to the Czech Republic and Slovakia loan growth was driven by increased foreign exchange lending. The central bank reacted by again increasing the marginal reserve requirement on foreign exchange liabilities of commercial banks in February 2006. Despite the more challenging market environment, EBC managed to outperform market growth in most categories in 2006. In the key retail deposit segment the bank was particularly successful and expanded its share from 10.3% in 2005 to 11.3% in 2006.

Financial intermediation – Croatia in % of GDP



Source: Croatian National Bank, Eurostat.

Market shares – Croatia
in %



Source: Croatian National Bank, Erste Bank Croatia.

BUSINESS REVIEW

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

Highlights 2006

Focus on domestic funding boosts client numbers. In 2006 Erste Bank Croatia focused on the diversification of its funding sources especially against the backdrop of the restrictive monetary policy adopted by the Croatian National Bank. In response the bank developed a number of innovative savings products that were well received especially by new clients. One of the favourites was a newly introduced short-term savings product with a maturity of up to 12 months and flexible deposit and withdrawal features even before the maturity date. As a result the total number of retail clients rose by more than 30 thousand in 2006.

First mover in retail products. In 2006 Erste Bank Croatia introduced a personal loan product that is a mix between a traditional capital redemption and an interest only loan: clients do only repay interest and part of the capital, and at the end of the term have the option to either repay the outstanding capital in full or cover it by a new loan. This innovation was well received by clients, as indeed was a similar housing loan product that was introduced in 2005.

Continued network optimisation. Quality before quantity remained at the heart of EBC's branch network restructuring. While overall branch numbers declined from 122 a year ago to 112, new branches were opened in key locations, such as in the capital Zagreb and in the large coastal cities of Split and Zadar. The new branches comply with high business standards and service quality offered in all other branches thanks to permanent education and training of employees. At the same time branches in smaller towns and villages were closed down.

Innovations in corporate banking. Following market trends and client needs, the bank identified several opportunities for developing its corporate banking activities and establishing a new type of a bank-client partnership. At the beginning of 2006 EBC established the EU Office charged with development of new banking products tailored to the needs of clients applying for subsidies from EU financed programmes. The Office also functions as an information point, providing clients with information on the available programmes and consultants. In addition, having identified real estate and tourism sectors as areas of high development potential, EBC launched a series of innovative training activities for both clients and staff. The idea behind the effort was to provide them with comprehensive information necessary for development of a successful and competitive business. EBC thus confirms its image as a business partner, strengthens relationships with the existing clients and creates a fertile ground for expanding the client base.

Financial review

in EUR million	2006	2005
Pre-tax profit	64.1	54.3
Net profit after minorities	32.9	26.8
Operating result	76.1	70.3
Cost/income ratio	52.6%	51.7%
ROE based on net profit	24.1%	28.5%

Overall Erste Bank Croatia increased its net profit after minority interests by EUR 6.0 million (22.5%), from EUR 26.8 million to EUR 32.9 million. The operating result grew from EUR 70.3 million to EUR 76.1 million. Net profit before taxes increased by EUR 9.8 million (+18.0%) from EUR 54.3 million to EUR 64.1 million. Return on equity fell slightly in relation to the previous year from 28.5% to 24.1%. The cost/income ratio rose from 51.7% to 52.6%.

Net interest income in 2006 grew by EUR 9.2 million (+9.0%) compared to 2005, from EUR 101.9 million to EUR 111.1 million, despite the restrictive measures imposed by the Croatian National Bank in relation to foreign currency loans.

Risk provisions sank by EUR 2.1 million or 14.4% from EUR 14.4 million to EUR 12.3 million, in particular as a result of a general improvement in the loan portfolio as well as the effects of the Basel II measures and recoveries on already provided for loans. Commission income grew by EUR 6.4 million (+27.6%) from EUR 23.3 million to EUR 29.7 million, thanks to the trend in monetary transactions, lending operations and securities business. The net trading result remained practically unchanged from last year at EUR 19.8 million despite the drop in bond prices at the beginning of 2006.

Furthermore, the volume of securities transactions was reduced due to the restrictive measures imposed by the Croatian National Bank, with a corresponding increase in the loan portfolio. Erste Bank Croatia's policy of continued expansion meant that general administrative expenses increased by EUR 9.2 million (+12.3%) from EUR 75.3 million to EUR 84.5 million. The increase was driven by costs involved in optimising the branch network and associated employment of additional staff.

OUTLOOK 2007

In 2007 the operating environment will continue to be challenging for Erste Bank Croatia. A point in case is the central bank's latest measure to restrict credit growth: a growth cap of 12% on banks' liabilities, including off-balance sheet products. In case of higher growth, 50% of the excess funds have to be invested in treasury bills. Nonetheless EBC plans to move on with its branch optimisation programme, strengthening its presence primarily in Croatia's biggest cities as well as in new regions with a view to get closer to existing and new customers throughout the country. In financial terms Erste Bank Croatia targets net profit growth of 15% in 2007; the cost/income is expected to fall to below 51%, while return on equity should also reach 15%. All targets relate to local consolidated figures.

SERBIA

Business profile. Erste Bank Serbia has some 260 thousand clients and a network of 60 branches. Catering to the needs of a broad retail and mid-market corporate client base, the bank is particularly well represented in the north of Serbia. Vojvodina, its traditional home market is one of the most developed regions in the country. Erste Bank Serbia offers a wide range of financial products and is among the leading banks in the country in alternative distribution channels, with over 10% market share in electronic payments.

ECONOMIC REVIEW

As in 2005 the operating environment was more volatile in Serbia than in Erste Bank's more developed markets. GDP advanced at a healthy, albeit slightly lower rate of 5%, while GDP/capita reached a level EUR 2,900. Growth was driven by strong domestic demand, especially in the form of private consumption. Public consumption remained muted, in an effort to dampen inflation and curb foreign indebtedness. Serbia's ongoing transformation process continued to be reflected in a relatively high unemployment rate, which stood at an average 21%.

2006 also saw a revival of the disinflation trend thanks to lower than expected administrative price rises and a tighter monetary policy stance of the central bank. The former was facilitated by declining energy prices in the second half of the year. The latter held interest rates at high levels thereby supporting the real appreciation of the

Key economic indicators – Serbia

	2003	2004	2005	2006e
Population (ave, million)	7.5	7.5	7.5	7.5
GDP (nominal, EUR billion)	16.8	18.0	19.4	21.7
GDP/capita (EUR thousand)	2.2	2.4	2.6	2.9
Real GDP growth	2.4%	9.3%	6.8%	5.0%
Domestic demand contribution	na	na	na	na
Exports (share of GDP)	20.9%	23.1%	25.7%	27.7%
Imports (share of GDP)	42.4%	51.9%	48.8%	53.9%
Unemployment (Eurostat definition)	14.6%	18.5%	20.8%	22.0%
Consumer price inflation (ave)	9.9%	11.4%	16.2%	12.0%
Interest rate (1m interbank offer rate)*	na	na	20.2%	15.3%
EUR FX rate (ave)	65.2	72.6	82.7	86.8
EUR FX rate (eop)	68.5	78.9	85.5	85.3
Current account balance (share of GDP)	-7.7%	-12.6%	-9.5%	-13.0%
General government balance (share of GDP)	-3.4%	0.0%	0.9%	2.7%

Source: Vienna Institute for International Economic Studies, EBRD.
*) Data for 2006 is as of year-end.

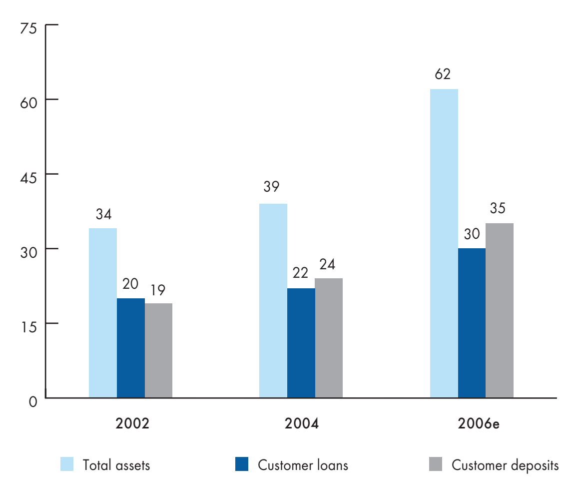
currency. The central bank also employed a cocktail of measures to stem credit growth, amongst others high reserve requirements foreign exchange liabilities of banks as well as rigid risk rating standards and additional capital requirements for retail lending.

While the trade balance remained heavily in the red as a result of strong domestic demand and was responsible for a persistent, double digit current account deficit, the general government balance moved further into positive territory: the budget surplus reached an estimated 2.7% in 2006, up from a flattish 0.9% in the previous year. Foreign direct investments accelerated further in 2006, following good privatisation progress, especially in the banking and mobile telephony sectors.

MARKET REVIEW

Despite the strict monetary policy regime the Serbian banking sector advanced on a steep growth path in 2006. This was mainly driven by the continuing boom in imports and financed largely by the expansion of private sector credit. As in many other markets retail loans grew fastest and surpassed 10% of GDP for the first time. Mortgage loans also rose relentlessly, but still amounted to only 3% of GDP.

Financial intermediation – Serbia in % of GDP



Source: National Bank of Serbia.

The development of the banking sector was also aided by strong privatisation activity. Following a period of falling penetration ratios, during which the central bank revoked the licenses of some of the largest banking groups in the country, Serbia is now firmly on track of catching up with its central and east European peers. Assets/GDP reached a level of an estimated 62% at the end of 2006, strongly up from 39% two years ago. In a similar fashion loan penetration rose by nearly 50% over the same period. Deposits/GDP increased at a similar pace.

BUSINESS REVIEW

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

Highlights 2006

Successful completion of transformation programme. In a comprehensive transformation programme, Erste Bank Serbia completely revamped its structure and operations. Among others, a new client-oriented organisational set-up and a new performance-oriented remuneration system were introduced, the employee structure was improved through a wide-reaching voluntary redundancy plan and the bank's product offering and branch network were extended significantly – 13 new branches opened in 2006. Furthermore, the bank carried out a thorough restructuring of its loan portfolio, reclassifiying all placements in accordance with group standards and building sufficient provisioning levels.

Migration to a new IT system. In parallel with the reorganisation process, Erste Bank Serbia also migrated to a new, centralised IT system, which is based on the system and infrastructure of Erste Bank Croatia. The introduction of the new IT system will improve the bank's efficiency and product capability, and enables it to share its IT costs with Erste Bank Croatia. Over 12,600 mandays were spent on IT-, sales- and product-related staff training.

Advances in retail and multi-channel banking. Despite its intensive transformation efforts, Erste Bank Serbia succeeded in significantly growing its retail operations. The volume of retail loans tripled to reach some EUR 50 million, and 20 thousand new clients were added in 2006. The bank also issued over 50 thousand new payment cards, strengthening its market presence in this segment as well as in electronic payments, where it holds over 10% market share.

Financial review

in EUR million	2006	2005
Pre-tax profit	(21.3)	(7.9)
Net profit after minorities	(21.2)	(7.5)
Operating result	(17.7)	(4.1)
Cost/income ratio	n.n.	n.n.
ROE based on net profit	n.n.	n.n.

As the 2005 result only covers the August-December period, a sound comparison between 2006 and 2005 is impossible. For this reason, the following remarks relate only to developments in 2006.

Net profit after minority interests showed a loss of EUR -21.2 million, largely due to additional costs relating to the transformation process. The costs of the voluntary redundancy plan amounted to EUR 5.1 million, while the costs for the IT system migration and consultancy were EUR 1.9 million. Travel and training costs connected to the transformation stood at EUR 1.0 million. The provisions required by IFRS 19 also influenced costs for the first time.

The rise in risk provisions was partly related to conservative provisioning. Loans and advances to customers increased by 14.6% compared to 2005, while customer deposits rose by 58.3%. Net commission income reflected the positive trend in lending business and payment transactions, with the number of transactions increasing and the introduction of higher account service charges.

OUTLOOK 2007

Business growth is the first priority for Erste Bank Serbia in 2007. This will be achieved through continuous network expansion and penetration of the client base. Both in retail and corporate banking, outstanding customer loans are set to double and strong growth is also targeted in fees, following the introduction of a number of new products and functionalities. Having achieved a basic coverage in most of the market in 2006, Erste Bank Serbia will continue to grow its branch network in 2007, with some 5 to 7 new branch openings in larger cities and the greater Belgrade area. Through expansion of the geographic presence, as well as product penetration among its client base, Erste Bank Serbia aims to create a sustainable basis for accelerated growth over the next years.

INTERNATIONAL BUSINESS

Business profile. The International Business segment covers commercial lending to foreign banks, leasing companies and sovereign debtors, excluding treasury-related interbank business, of Erste Bank's branches in London, New York and Hong Kong as well as of Erste Bank Vienna and Erste Bank Malta.

Erste Bank's London Branch, with some 40 employees, is a wholesale banking operation focusing on the European market, including Central and Eastern Europe, with a range of activities extending from leveraged and acquisition finance, asset backed securities, structured trade and commercial property to aircraft finance.

The New York Branch with it's team of 30 employees engages in corporate, project as well as in trade finance, mainly through the acquisition of debt securities, bonds and structured obligations resulting from mergers and acquisitions, leveraged buyouts, refinancing or recapitalisation activity on the corporate side.

The Hong Kong Branch is Erste Bank's sole Asia Pacific point of representation. It employs some 20 staff and concentrates on building up a diversified credit portfolio and engaging in proprietary trading activities in the FX and money markets.

The Vienna Profit Centre concentrates on lending to financial institutions and sovereign debtors – 96% of Vienna's loan book in this segment relates to these customer groups.

BUSINESS REVIEW

Strategy. The activities of International Business are intended to balance out the loan books of the home market and to achieve the greatest possible group-wide diversification of the credit portfolio as well as corresponding credit risk. The strategic focus remains the participation in primary credit syndications as well as asset generation from the secondary market. The aim is to balance out the continuing margin pressure by an increase in bilateral business combined with a greater concentration on arranging wholesale transactions. When extending loans, particular attention is paid to the relevant risk-return relationship and the overall credit quality of the loan book. The primary goals remain maintaining steady income streams as far as possible and a return on equity that is above the group average, thereby creating shareholder value.

Highlights 2006

New York Branch with new commercial paper programme. The highlight of 2006 was the establishment of a commercial paper programme through a newly opened subsidiary in Delaware; the maximum issue volume is currently USD 3 billion. The treasury department of the branch again worked on the broadening of refinancing sources and stands to benefit from the upgrade of Erste Bank's Standard & Poor's rating. The lending department focused increasingly on assets with several potential sources of repayment.

London Branch profits from positive market environment. In 2006 the branch took full advantage of the strong increase of leveraged finance markets in Europe. Acquisition finance in CEE, where the branch plays a key role, has expanded further. The total volume of new leveraged finance loans has been historically high although the portfolio has not increased due to significant prepayments. Aircraft business has offered very profitable financing opportunities as aircraft values and the leasing rates have increased significantly.

Hong Kong Branch treasury acquires new sources of liquidity for the group. The acquisition of new sources of liquidity continued to be among the focal points in Asia in 2006. Loan volume exceeded last year's level significantly, primarily as a result of increased lending to financial institutions and sovereign debtors. The investment grade portion of the loan portfolio remained very high at 83%.

Vienna Profit Centre continues its success. In spite of sizeable redemptions, the Vienna Profit Centre has grown its commitments by EUR 3.0 billion, or 33%, to a total exposure of EUR 12.5 billion. At the same time credit quality remained stable, with the share of investment grade assets increasing to almost 90% from 86% in 2005. In the face of expected further margin pressure, an increase in volumes, while at the same time meeting the strict quality criteria, will be required to maintain the performance in 2007.

Financial review

in EUR million	2006	2005
Pre-tax profit	160.0	155.3
Net profit after minorities	118.2	110.8
Operating result	147.8	143.1
Cost/income ratio	18.9%	20.0%
ROE based on net profit	23.5%	26.0%

The International Business segment exceeded last year's solid result. Net profit after minority interests rose by EUR 7.5 million, from EUR 110.8 million to EUR 118.2 million. The cost/income ratio improved from 20% to 18.9% and return on equity fell from 26% to 23.5%.

Despite narrowing of credit margins in the wholesale business, net interest income remained at last year's level with EUR 149 million, mainly as a result of the expansion of lending volumes in Vienna. Due to the very good risk position in the foreign branches as well as in Vienna risk provisions were again released, albeit no longer at last year's high level. Net commission income posted a very satisfactory increase of 13.2% from EUR 29.4 million to EUR 33.3 million. Sound cost management led to a significant fall of EUR 1.5 million or 4.2% in general administrative expenses from EUR 35.8 million to EUR 34.3 million. Other result advanced sharply by EUR 8.1 million from EUR 2.0 million to EUR 10.1 million partially as a result of loan recoveries but also due to valuation gains in the securities portfolio.

OUTLOOK 2007

In 2007, the International Business segment will continue to implement a conservative credit policy in order to continue to achieve an income stream that is as stable as possible and not affected by increasing risk provisions. Close attention will be paid to the selection of transactions, particularly in light of ongoing high liquidity and the tendency of some parts of the financial sector to water down their credit terms. In order to overcome the expected pressure on margins, alternative investment opportunities will be examined to a greater extent.

CORPORATE CENTER

Business profile. The Corporate Center segment encompasses those banking activities that do not qualify for direct allocation to business lines, including non-banking subsidiaries, e-business and subsidiaries that provide marketing, organisation, information technology and other support services. The Corporate Center segment also includes intragroup profit and loss eliminations and onetime effects, which make line-item and period-to-period comparisons of the results of this segment not meaningful. By reporting the onetime effects of business disposals and expenses for group-wide projects in the Corporate Center segment, we seek to improve the period-to-period comparability of the results of our core business segments.

BUSINESS REVIEW

Effective marketing. In 2006, marketing activities in Austria continued to cover a wide spectrum: there were briefings on Basel II for SMEs; start-ups and founders and new businesses were given the opportunity to benefit from advice and enter our business plan competition: another key theme was inheritance. This was well received, not only by the group of over-sixties, which continues to play a growing role in the light of demographic changes. They were defined as a target group in 2006 and tailor-made packages of products aimed at this market were developed. The leading position in the professional clients market was developed further by continued close and successful collaboration with professional associations.

In Serbia, the "Vesely family" advertising concept, already run successfully in Hungary and Slovakia, was again applied, leading to further synergies and repeat of the concept's success. Another marketing highlight of 2006 was the active participation in the design and implementation of the BCR transformation programme. The decision on re-branding BCR will be the first real outcome of this strategy. In Hungary, 2006 saw the continued strengthening of the sales alliance between Erste Bank Hungary and Magyar Posta's financial services activities. An advertising concept developed specially for this distribution channel led to a significant increase in product sales compared to the previous year.

The Croatian subsidiaries introduced a wholly new marketing concept to the market in 2006. With Erste Bank Croatia as lead partner, the campaign successfully integrated all the subsidiaries such as leasing and insurance, with Erste Bank Croatia presenting itself as a group for the first time. The strategic focus in Slovakia was on the youth segment: after having successfully targeted students, schoolchildren were next in line in 2006. The First Choice programme was begun in the Czech Republic. The programme goes beyond marketing activities and is aimed at bringing a qualitative shift in business culture which will benefit customers and personnel.

Diverse information technology activities. A number of projects were implemented in 2006 both at group level and locally in the home market. Particular highlights were Erste Bank Serbia's successful IT transformation on time and on budget, structural and internal preparations for the rapid integration of BCR and Erste Bank Ukraine; at BCR the IT transformation programme for IT administration, software development, remote infrastructure management and operations has already started.

In addition substantial cost savings were achieved in 2006. These resulted mainly from the group-wide harmonisation of end-user infrastructure (desktops, notebooks), pooling of purchasing in collaboration with Group Procurement, creation of a common service company (sDIS) for Erste Bank and the savings bank sector in Austria as well as comprehensive organisational changes in infrastructure management at Česká Spořitelna and Slovenská Sporitel'ňa.

Realignment of procurement activities. 2005 was dominated by the centralisation of procurement in s Proserv GmbH. The transformation programme began in mid-2006 with the aim of strengthening the procurement network and concentrating on value-creating activities. This was achieved organisationally by setting up subsidiaries focused exclusively on procurement in all home market countries. On the process side, procurement procedures such as ordering and debitor/creditor accounting were outsourced.

Operational successes were achieved during the transformation activities, such as the extension of group-wide purchasing across all product groups. Projects such as decentralised computing, all-in-one devices, mobile telephony, office equipment, safety equipment, company car procurement and travel management (hotels and airlines) were actively supported by Group Procurement, leading to significant savings in 2006.

Financial review

in EUR million	2006	2005
Pre-tax profit	(144.9)	(105.7)
Net profit after minorities	(95.6)	(105.4)
Operating result	(87.2)	(110.0)
Cost/income ratio	n.a.	n.a.
ROE based on net profit	n.a.	n.a.

In addition to other positions from Erste Bank, bank support operations and intragroup transactions, the Corporate Center segment also includes special items and onetime income entries which cannot be assigned to a business segment if comparability is to be maintained.

The trends for net commission income and general administrative expenses were largely determined by profit consolidation of bank support operations, as general administrative expenses rose in large part through capital expenditure for group-wide projects launched in 2004 and strategic group-level activities.

The improvement in the net interest income is due primarily to the investment income allocated to the segment from the capital increase completed at the end of January 2006 for the acquisition of Banca Comercială Română. The deterioration in other result (including – as reported last year – revenue from sale of office buildings) was also determined by a onetime item caused by security settlement case and the associated valuation requirements. Statutory linear depreciation of BCR client stock was also posted at EUR 18 million. The proceeds from the sale of a non-core equity interest of EUR 32 million is mainly offset by expenses from operational risks relating in part to the previous year and other provisions.

Credit Risk

INTRODUCTION

Credit exposure represents the total of the following: balance sheet items loans and advances to credit institutions and loans and advances to customers, all fixed-income securities held to maturity, at fair value through profit or loss, available for sale or for trading, off-balance sheet credit risks in the form of guarantees and letters of credit, and the investment portfolio of insurance company s Versicherung.

Total credit exposure of Erste Bank Group as of December 31, 2006 was up by 16.4% or EUR 24.1 billion from one year earlier, to EUR 171.0 billion. Of this increase, EUR 10.6 billion represented Banca Comercială Română (BCR), consolidated into Erste Bank Group for the first time. Excluding BCR, the growth rate was 9.2%.

The rest of the expansion in total credit risk was distributed as follows: Erste Bank AG, mainly related to interbank business, accounted for EUR 1.9 billion; subsidiaries in the central and east European core markets, for EUR 7.3 billion, due to continued growth in the total credit portfolio, primarily with private individuals; and savings banks – the Haftungsverbund and Erste Bank's own savings banks – for EUR 2.3 billion, especially through growth in consumer and mortgage lending; the remaining increase of EUR 2.0 billion was spread across other companies of Erste Bank Group, such as s Versicherung, the leasing and residential mortgage subsidiaries and Erste Bank Malta.

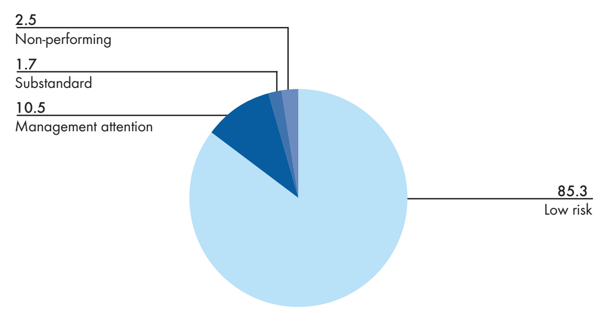
The classification of credit assets into the risk classes used here is based on Erste Bank's internal rating of customers. Erste Bank Group employs internal rating systems that, for private individuals, have eight rating grades for customers not in default and one grade for customers in default; for all other clients, the internal rating systems have 13 rating grades for customers not in default and one rating grade for those in default. Credit exposure is divided into the following risk classes: low risk, management attention, substandard, and non-performing.

CREDIT RISK REVIEW

Overall trend

The increase in overall credit exposure occurred largely in the best risk class (low risk), and the increase in assets rated "management attention" resulted solely from the first-time consolidation of BCR. The decrease in substandard loans would have been even more pronounced without BCR, and the percentage increase in the non-performing (NPL) category was lower than the overall increase, thus reducing the NPL share of the total portfolio from 2.6% to 2.5%.

Credit exposure by risk class in 2006
in %



Of Erste Bank Group's total credit exposure, 85.3% constituted the best risk class and 10.5% the management attention class; the combined proportion of the two poorer risk classes eased from 4.6% to 4.2%.

Trend in Austria and abroad

In this section, credit exposure is broken down by the home country of the debtor; the distribution among Erste Bank 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	Total exposure
Total exposure at 31 Dec 2006	145,916	17,928	2,882	4,247	170,974
Share of total exposure	85.3%	10.5%	1.7%	2.5%	100.0%
Risk provisions at 31 Dec 2006	106	218	388	2,491	3,203
Covered by risk provisions	0.1%	1.2%	13.5%	58.6%	1.9%
Total exposure at 31 Dec 2005	125,296	14,751	2,973	3,833	146,853
Share of total exposure	85.3%	10.0%	2.0%	2.6%	100.0%
Risk provisions at 31 Dec 2005	106	152	514	2,115	2,886
Covered by risk provisions	0.1%	1.0%	17.3%	55.2%	2.0%
Change in total exposure in 2006	20,620	3,177	(91)	414	24,120
Change	16.5%	21.5%	-3.1%	10.8%	16.4%
Change in risk provisions in 2006	0	66	(126)	376	317
Change	0.2%	43.6%	-24.4%	17.8%	11.0%

Credit exposure by risk class/Austria

in EUR million	Low risk	Management attention	Substandard	Non-performing	Total exposure
Total exposure at 31 Dec 2006	56,004	8,555	1,679	3,002	69,240
Share of total exposure	80.9%	12.4%	2.4%	4.3%	100.0%
Risk provisions at 31 Dec 2006	31	100	271	1,604	2,007
Covered by risk provisions	0.1%	1.2%	16.1%	53.4%	2.9%
Total exposure at 31 Dec 2005	51,651	10,672	2,305	2,932	67,559
Share of total exposure	76.5%	15.8%	3.4%	4.3%	100.0%
Risk provisions at 31 Dec 2005	21	38	372	1,560	1,992
Covered by risk provisions	0.0%	0.4%	16.2%	53.2%	2.9%
Change in total exposure in 2006	4,353	(2,117)	(625)	71	1,681
Change	8.4%	-19.8%	-27.1%	2.4%	2.5%
Change in risk provisions in 2006	10	62	(101)	44	15
Change	47.3%	163.3%	-27.2%	2.8%	0.8%

In Austria, total credit exposure rose by EUR 1.7 billion or 2.5% compared to the end of the previous year, driven mainly by growth in retail and SME lending at the Haftungsverbund savings banks.

The low risk category expanded by EUR 4.4 billion or 8.4%, while the management attention class decreased by just under EUR 2.1 billion or 19.8%, substandard assets fell by approximately EUR 625 million or 27.6%, and the NPL balance registered only a slight increase.

Credit exposure by risk class/Outside Austria

in EUR million	Low risk	Management attention	Substandard	Non-performing	Total exposure
Total exposure at 31 Dec 2006	89,913	9,374	1,203	1,244	101,734
Share of total exposure	88.4%	9.2%	1.2%	1.2%	100.0%
Risk provisions at 31 Dec 2006	74	118	117	886	1,196
Covered by risk provisions	0.1%	1.3%	9.7%	71.2%	1.2%
Total exposure at 31 Dec 2005	73,645	4,080	668	901	79,295
Share of total exposure	92.9%	5.1%	0.8%	1.1%	100.0%
Risk provisions at 31 Dec 2005	84	114	42	555	894
Covered by risk provisions	0.1%	2.8%	21.2%	61.5%	1.1%
Change in total exposure in 2006	16,267	5,294	535	343	22,439
Change	22.1%	129.8%	80.0%	38.1%	28.3%
Change in risk provisions in 2006	(10)	4	(25)	332	301
Change	-11.7%	3.5%	-17.3%	59.8%	33.7%

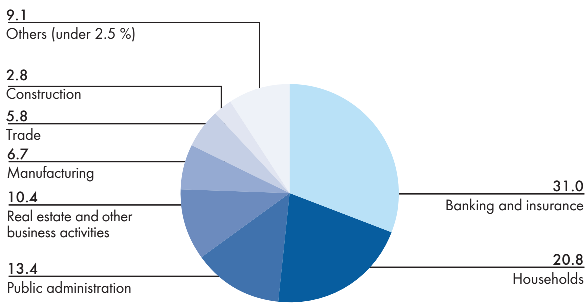
Credit exposure outside Austria grew by nearly EUR 22.4 billion or 28.3%. Almost half of this increase represented BCR, with other significant contributions coming from the lending growth in Central and Eastern Europe and the interbank business of Erste Bank AG. The increase abroad too occurred principally in the best risk class, which was up EUR 16.2 billion or 22.1%.

CREDIT RISK BY SECTOR

As in the year before, the sectors with the highest credit exposure were banks and insurance companies, households and the public administration; collectively these accounted for almost two-thirds of total exposure. The next most important sectors were real estate and business services, manufacturing, and trade; the shares of the latter two sectors went up significantly as a result of the inclusion of BCR.

Except for construction, the shares of the other industries were less than 2.5%. The sector mix thus remained balanced, with an appropriate degree of risk diversification. While the sector distribution is portrayed at group level, it is also representative of most individual companies in Erste Bank Group. The group is very much a retail bank, with a largely uniform risk structure. Any deviations from this pattern are found mainly at entities with specialised products, such as s Bausparkasse, s Wohnbaubank and Immorent.

Credit risk by sector in 2006
in %



Credit risk by sector/Total

in EUR million	Low risk	Management attention	Substandard	Non-performing	Total exposure
Agriculture and forestry	805	684	115	91	1,695
Mining	522	243	33	12	809
Manufacturing	7,908	2,408	458	609	11,383
Energy and water supply	1,655	277	53	16	2,000
Construction	3,302	973	197	325	4,798
Trade	6,248	2,700	535	499	9,982
Tourism	1,601	1,144	304	396	3,446
Transport and communication	2,210	783	244	195	3,431
Banking and insurance	51,423	1,432	41	36	52,932
Real estate and other business services	13,417	3,334	356	593	17,701
Public administration	22,286	563	29	9	22,886
Healthcare and social services	947	223	34	50	1,254
Other services	1,348	489	106	119	2,062
Households	31,327	2,565	375	1,284	35,552
Other	917	109	2	14	1,043
Total	**145,916**	**17,928**	**2,882**	**4,247**	**170,974**

Credit risk by sector/Austria

in EUR million	Low risk	Management attention	Substandard	Non-performing	Total exposure
Agriculture and forestry	424	294	46	56	821
Mining	79	58	25	5	168
Manufacturing	3,342	734	182	351	4,608
Energy and water supply	663	120	4	14	801
Construction	2,375	598	137	273	3,383
Trade	3,042	1,203	301	369	4,915
Tourism	914	875	268	322	2,380
Transport and communication	1,068	283	130	116	1,597
Banking and insurance	12,644	245	10	26	12,925
Real estate and other business services	7,295	2,462	280	506	10,543
Public administration	5,191	73	6	7	5,277
Healthcare and social services	718	187	26	38	969
Other services	800	379	70	83	1,332
Households	17,425	1,020	193	836	19,475
Other	23	24	1	0	47
Total	**56,004**	**8,555**	**1,679**	**3,002**	**69,240**

Credit risk by sector/Outside Austria

in EUR million	Low risk	Management attention	Substandard	Non-performing	Total exposure
Agriculture and forestry	380	391	69	35	874
Mining	443	185	8	6	642
Manufacturing	4,566	1,675	276	258	6,775
Energy and water supply	992	157	48	2	1,199
Construction	927	375	61	52	1,415
Trade	3,207	1,497	234	130	5,067
Tourism	687	269	36	74	1,066
Transport and communication	1,141	500	114	79	1,834
Banking and insurance	38,779	1,187	30	10	40,007
Real estate and other business services	6,122	872	77	87	7,158
Public administration	17,095	489	23	2	17,609
Healthcare and social services	229	36	7	12	284
Other services	548	110	36	36	730
Households	13,902	1,544	182	448	16,077
Other	894	86	2	14	996
Total	**89,913**	**9,374**	**1,203**	**1,244**	**101,734**

The EUR 1.7 billion increase in the total credit portfolio in Austria resulted from a EUR 2.0 billion increase in the real estate and business services sector and with households, while the combined exposure in all other sectors exhibited a decline.

Outside Austria, most of the EUR 22.4 billion increase in credit exposure occurred with households, banks, insurers, manufacturers, real estate and trade as well as the public sector, whose combined credit volume grew by EUR 19.9 billion. The significant growth of EUR 6.6 billion or 70% in credit extended to households was attributable almost entirely to the consumer lending increase in Central Europe, notably driven by the addition of BCR and gains at Česká spořitelna and Erste Bank Hungary.

In the year under review the foreign portion of credit exposure rose from 54% to 59.5%. This trend too was strongly influenced by BCR; excluding this new subsidiary, the foreign component would have risen only to just under 57%. However, both the already described sectoral breakdown of this increase and its regional distribution presented below show that the growth did not significantly change Erste Bank Group's credit risk profile.

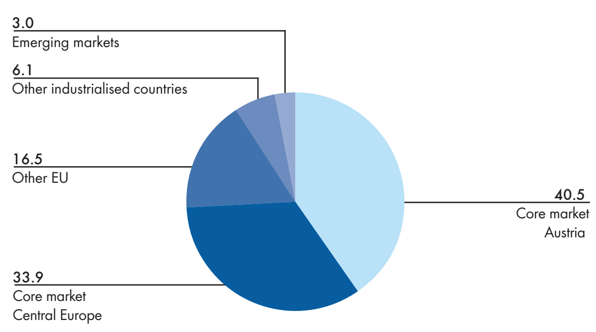
CREDIT RISK BY REGION

The overall increase of EUR 24.1 billion in credit exposure broke down as follows: EUR 1.7 billion or 7% of it occurred in Austria; EUR 17.2 billion or 71% in the central and east European core market (including EUR 10.6 billion or 42% added through BCR); EUR 3.0 billion or 12% in the rest of the European Union; and EUR 1.2 billion or 5% in other industrialised countries.

The volume expansion in Central and Eastern Europe resulted from the organic growth of the banking subsidiaries. In the other EU countries, the increase mainly represented higher interbank investments.

In the following table, credit exposure is broken down by the home country of the debtor; the distribution among Erste Bank Group entities is discernable from the composition of credit risk in terms of reporting segments.

Credit risk by region in 2006
in %



The countries of Erste Bank Group's core market and the European Union accounted for 91% of credit exposure.

Volume in the emerging markets increased by a total of EUR 1.0 billion, but remained of relatively little significance at a share of 3.0%.

Credit risk by region

in EUR million	Low risk	Management attention	Substandard	Non-performing	Total exposure
Core market	104,573	15,901	2,791	4,024	127,289
Austria	56,004	8,555	1,679	3,002	69,240
Croatia	4,940	654	122	139	5,855
Romania	5,199	4,428	523	260	10,411
Serbia	379	70	3	33	486
Slovakia	7,356	722	178	148	8,403
Slovenia	1,487	119	66	77	1,749
Czech Republic	21,280	507	124	217	22,128
Hungary	7,928	847	96	147	9,017
Other EU	26,981	982	56	179	28,197
Other industrialised countries	10,108	270	25	35	10,438
Emerging markets	4,255	775	10	10	5,049
Southeastern Europe / CIS	1,169	330	0	6	1,505
Asia	1,606	113	1	1	1,720
Latin America	583	62	9	2	655
Middle East / Africa	897	271	0	1	1,169
Total	**145,916**	**17,928**	**2,882**	**4,247**	**170,974**

CREDIT RISK BY SEGMENTS

This section describes the composition of credit exposure based on reporting segments. Exposure is allocated based on the domicile of the Group entities that carry the credit risk on their books.

The differences in provisioning levels for the segments resulted from the risk situation in the respective markets, regulatory requirements and the local legal environment.

Credit risk by segment

in EUR Mio	Low risk	Management attention	Substandard	Non-performing	Total exposure	Non-performing loans	Total risk provisions	NPL Coverage in %
Austria	81,200	10,119	1,875	3,370	96,564	3,370	2,166	64.3%
Central and Eastern Europe	44,597	7,092	981	861	53,532	861	967	112.3%
International Business	19,701	716	27	16	20,460	16	69	439.5%
Corporate Center	417	1	0	0	418	0	1	–
Total	**145,916**	**17,928**	**2,882**	**4,247**	**170,974**	**4,247**	**3,203**	**75.4%**

NON-PERFORMING ASSETS AND RISK PROVISIONS

Credit assets are classified and reported as non-performing (NPL) if one or more of the default criteria set out by Basel II are met: full repayment unlikely, interest or principal payments more than 90 days past due, restructuring resulting in a loss to the lender, realisation of a loan loss, or opening of bankruptcy proceedings. The NPL balances presented here constitute gross amounts, meaning that collateral has not been deducted.

On average in the Group, risk provisions covered 75.4% of reported NPL assets. As NPL include secured outstandings, this level can be considered sufficient, especially when taking into account the actual loss experience given default. When adopting the Basel II definition in 2002, Erste Bank chose a conservative approach by also including in the category those loans and advances on which interest and principal payments are still being made.

In 2006, NPL increased by EUR 414 million or 10.8% to EUR 4,247 million. A modest increase in Austria and a strong rise in Central and Eastern Europe that partly represented BCR were offset by a significant decrease in the International Business segment. Meanwhile, risk provisions for NPL were increased somewhat more strongly by EUR 317 million or 11.0% to EUR 3,203 million; while the balance was virtually unchanged in Austria, there was a vigorous increase in CEE and a contraction in International Business. This resulted in a net increase of 0.1 percentage point in NPL provision coverage.

CREDIT RISK SEGMENT REPORT

SEGMENT AUSTRIA

Savings Banks

In 2006 the credit exposure of the Haftungsverbund savings banks increased by EUR 2.0 billion or 6.1% to EUR 35.1 billion. With growth slower than in the Central and Eastern Europe segment, the share in the group's total credit volume decreased to 20.5%. The amount of NPLs increased by 7.4%, and their share of the total credit exposure of the Haftungsverbund savings banks remained constant at 4.9%, with provision coverage reduced to 74.1%.

The foreign component in credit exposure was almost unchanged at 13.2% and consisted primarily of assets in the rest of the EU and in the core market. No major changes occurred in the sector distribution, with the exception of exposure in the real estate industry, which, as a share of the total, increased by 1.8 percentage points to 17.0%. Once again, households and (residential) real estate represented the largest sectors. These two areas combined also accounted for more than three-quarters of the increase compared to the previous year.

Retail and Mortgage

Retail. Beginning 1 January 2006, statistically validated customer ratings were used. The rating is performed monthly, reviewing the risk grade assigned to the customer and automatically rating the client. The rating system proved to be stable, with only minor migration between risk classes. More than 92% of the exposure fell into the low risk category.

Total exposure rose by 4.14% from EUR 5.0 billion to EUR 5.2 billion, with the unsecured portion rising by only 0.24% and thus remaining broadly steady at EUR 2.4 billion.

Unlike the general Austrian trend, the number of bankruptcies among private individuals was flat, but as in Austria at large, the volume of credit exposure associated with such bankruptcies rose.

Mortgage. Despite a risk-sensitive lending strategy, credit exposure was successfully expanded without an increase in the stock of risk provisions, and the shares of substandard and NPL assets were lowered.

The housing loan portfolio of s Bausparkasse – very well secured by mortgages and broadly diversified in Austria – remained characterised by its traditional low default risk. The lending situation of s Wohnbaubank remained excellent and without defaults.

SME business. The business environment for the small and medium-sized enterprises among retail customers remained difficult, despite a trend towards lower bankruptcy rates. Companies' earnings and equity situation dictated lengthy periods of particular caution in extending credit, and continuous monitoring of existing credit lines.

Total SME credit volume and number of customers rose slightly in the course of the year. However, overall exposure declined by 4.3%, with unsecured exposure falling by 14.3%. The share of borrowers in the low risk class increased by 22% compared to the year before. This significant improvement in portfolio quality underscores the appropriateness of the strategy adopted.

In terms of credit risk, the business with self-employed customers remained positive. Thus, 90% of this customer group was classified as low risk. Outstandings were little changed from 2005, but in this customer segment too, unsecured exposure was reduced by 6.1%.

The proportion of foreign-currency financing grew slightly in the retail segments and was 51% for households. Just over 90% of foreign-currency exposure was categorised as low risk.

Large Corporates

The credit volume in Large Corporates followed a benign trend and the risk structure of the credit portfolio improved further. Exposure in the low risk class was increased while outstandings in all other risk classes were reduced.

The market segments with the strongest portfolio growth were banking, insurance and real estate; only the public sector exposure eased moderately as a result of the combined effect of ongoing repayments and budget restrictions.

Real estate and project financing. In 2006 the portfolio's volume decreased while its risk structure and the provisioning cover improved. Exposure in the low risk class rose while the balances in the other classes contracted. Portfolio quality was thus further enhanced, with the improvements in creditworthiness clearly predominating. There were sufficient provisions for credit risks. The unsecured portion of the exposure fell by 15% overall, with the largest decreases occurring with customers in the substandard and NPL categories.

For risk at Immorent, a net EUR 7.8 million was added to provisions in the year under review. The amounts of provisions remained broadly level with 2005.

NPLs were almost unchanged at slightly less than EUR 48 million and the collateral coverage ratio, consistent with the structure of the leasing portfolio, was more than 80%. The stock of risk provisions of EUR 37 million was therefore satisfactory. The exposure in the substandard class was brought down.

SEGMENT CENTRAL AND EASTERN EUROPE

Czech Republic

Total credit exposure in the Czech Republic rose by 18.0% in 2006 to EUR 23.4 billion. The credit portfolio in the narrow sense (excluding fixed-income securities), grew by only 5.5% to EUR 14.6 billion. While loans and advances to credit institutions and to the Czech Consolidation Agency (CKA) eased, loans and advances to customers grew strongly, with particular growth drivers being housing and other mortgage loans at Česká spořitelna and Stavební spořitelna ČS.

NPLs inched upward, but remained constant as a percentage of total credit exposure, at 0.9%. As a result of a merely small increase in risk provisions, the NPL coverage ratio decreased from 123% to 117%. Foreign-currency financing played no significant role in the Czech Republic; the foreign-currency portion of loans and advances to customers was a modest 5.1%, of which 4.5 percentage points was denominated in Euros.

Romania

The positive trend in the Romanian economy in 2006, with declining inflation, led to strong growth in credit demand and had a beneficial effect on credit default rates. The volume both of large corporate and retail lending expanded by more than 50%, with consumer credit nearly doubling. Demand was strongest for medium- and long-term financing, such as investment loans for businesses and mortgage loans for retail clients.

The vigorous growth in lending entailed a corresponding increase in NPLs; risk provisions were reinforced, partly in response to new local regulations, as certain forms of loan security no longer reduce the calculation base for regulatory provisioning.

The introduction of Erste Bank's standards in credit risk management – such as rating methods and the credit approval process – is fully under way; but even before this roll-out, the strict banking supervision requirements have been ensuring the appropriate classification of the credit portfolio.

Slovakia

The credit exposure of Slovenská sporiteľňa grew by 23.3% in 2006, from EUR 6.5 billion to EUR 8.0 billion. A key contribution to this growth came from retail lending, which in turn was fuelled mainly by demand for mortgage financing. Loans and advances to households thus increased by almost 38%, and the portion of the retail portfolio covered by security mounted from 47% to 53%.

NPL increased by 87% to EUR 143 million; risk provisions grew by 24% to EUR 126 million. Accordingly, the NPL coverage ratio was reduced from 134% to 88%, due partly to systematic changes in default prediction methods.

Hungary

At Erste Bank Hungary as well, 2006 was marked by strong growth of 24.6% in credit exposure from EUR 5.2 billion to EUR 6.5 billion. In the retail portfolio, growth was driven by mortgage lending, up 47%, with almost all of the increase being attributable to foreign currency loans.

In the corporate portfolio, which also includes public administration clients, the corporate share declined, but remained above 50%; stronger growth, albeit from a low base, was achieved in financing of municipalities, commercial real estate and trade. As the NPL balance grew only slightly and risk provisions were increased at a somewhat higher rate, the NPL coverage ratio rose from 93% to 96%.

Croatia

Much like in Erste Bank's other markets, in 2006 Erste Bank Croatia also registered a vigorous expansion in credit exposure, from EUR 3.9 billion to EUR 4.8 billion. The top growth drivers were the interbank and consumer portfolios. Nevertheless, commercial customers remained the largest portfolio segment, at 34%. The brisk growth was explained mostly by the good macroeconomic situation, while the extremely restrictive central bank policy forestalled even stronger growth. The central bank's approach was aimed primarily at reining in the refinancing of foreign currency loans, and at Erste Bank Croatia this policy did result in a significant reduction of this element in the total lending book from 77.9% to 69.5%.

The quality of the portfolio continued to improve. This manifested itself both in a steady NPL balance, a stable low risk component as a percentage of the total, and a disproportionately small increase in risk provisions. As a result, the NPL coverage ratio rose from 100.6% at the end of 2005 to 105.5% at the balance sheet date in 2006, while the NPL portion of credit exposure eased from 3.5% to 3.0%. All portfolio segments except for the public sector contributed to this decrease. Risk provisions as a share of portfolio volume decreased in similar measure, from 3.6% in 2005 to 3.1% last year.

Serbia

In 2006 Erste Bank Serbia achieved especially powerful growth of 71% in credit assets, to a new balance of EUR 254 million at year-end. The lion's share of the expansion occurred with the banking and insurance sector, thanks not least to the interim investment of the proceeds from the capital increase that was conducted towards the end of the year.

In the lending business proper, a striking increase of 174% was seen in loans and advances to households, while the combined balance for the other industries declined. NPL rose by EUR 12 million or 73% as a consequence of the implementation of systems and methods consistent with the standards of Erste Bank Group that led to the reclassification of legacy assets; the new business was free of significant defaults. Risk provisions decreased by EUR 19 million or 35% as a result mainly of the utilisation of provisions. The resulting NPL coverage of almost 122% at 31 December 2006 remained high.

INTERNATIONAL BUSINESS

Against the backdrop of a favourable interest rate environment and good macroeconomy, the portfolio experienced a gratifying risk trend. There was only a single new credit default and the NPL balance shrank from EUR 58 million to EUR 16 million. The reduction arose in part from the restructuring of non-performing loans, but also from write-offs of irrecoverable debts against risk provisions. This was one of the reasons for a decrease in risk provisions from EUR 116 million to EUR 69 million. However, the risk provisions remained higher than the total of defaulted and of substandard exposure. For 2007 a similar market environment is expected as last year, and no material change for the worse is therefore likely in the credit risk situation.

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