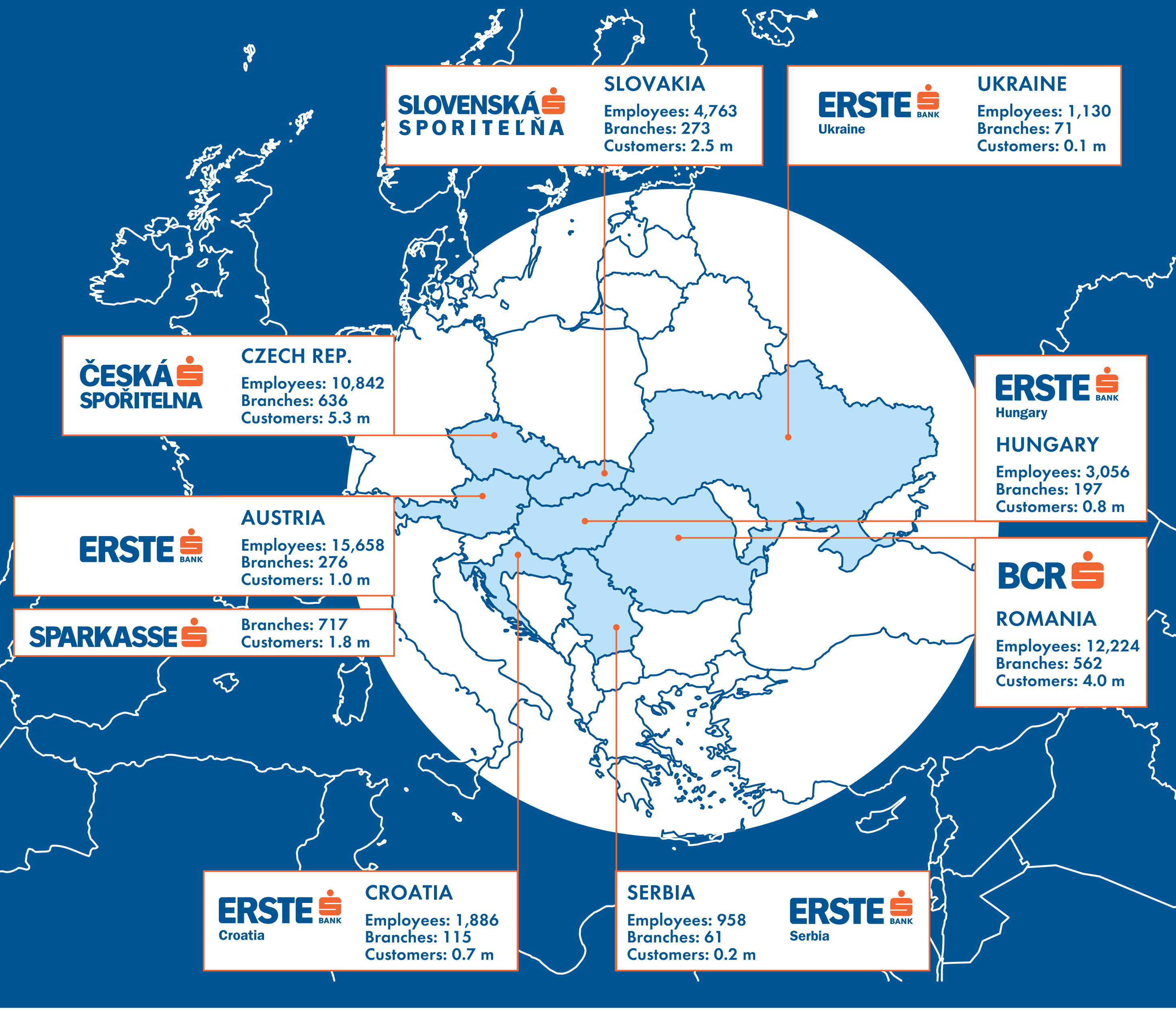
ERSTE BANK

The Bank for Central and Eastern Europe

Annual Report 2007

Extensive presence in Central and Eastern Europe

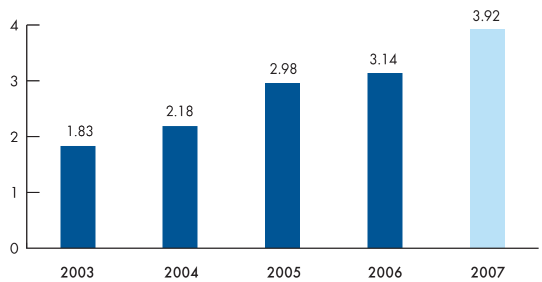


Key financial and operating data*

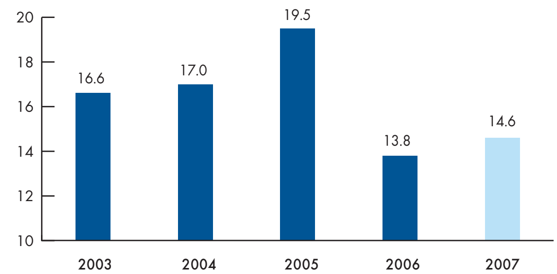
EUR million (unless otherwise stated)	2003	2004	2005	2006	2007
Balance sheet					
Total assets	**128,575**	**139,812**	**152,681**	**181,703**	**200,519**
Loans and advances to credit institutions	13,140	15,684	16,858	16,616	14,937
Loans and advances to customers	67,766	72,843	80,419	97,107	113,956
Risk provisions for loans and advances	-2,772	-2,804	-2,817	-3,133	-3,296
Securities and other financial assets	32,873	35,071	39,455	42,497	44,214
Other assets	17,568	19,018	18,766	28,616	30,708
Total liabilities and equity	**128,575**	**139,812**	**152,681**	**181,703**	**200,519**
Deposits by banks	25,704	28,551	33,911	37,688	35,165
Customer accounts	64,839	68,213	72,793	90,849	100,116
Debts securities in issue, including subordinated capital	20,482	23,416	25,581	27,024	36,667
Other liabilities, provisions	11,880	13,679	14,017	15,238	17,168
Shareholders' equity	2,791	3,424	4,065	7,979	8,452
Minority interests	2,879	2,529	2,314	2,925	2,951
Changes in total qualifying capital					
Risk-weighted assets pursuant to section 22 Austrian Banking Act	62,188	65,384	75,078	94,129	95,091
Qualifying consolidated capital pursuant to sections 23 & 34 Austrian Banking Act	7,009	7,286	8,611	10,111	11,114
Core capital (Tier 1)	3,912	4,377	5,112	6,185	6,674
Hybrid capital	605	711	900	1,250	1,247
Solvency ratio pursuant to section 22 Austrian Banking Act	10.7%	10.7%	11.0%	10.3%	10.5%
Tier 1 ratio	6.3%	6.7%	6.8%	6.6%	7.0%
Income statement					
Net interest income	2,586.8	2,660.3	2,794.2	3,189.3	3,945.8
Risk provisions for loans and advances	-406.4	-406.2	-421.6	-439.1	-454,7
Net commission income	996.6	1,135.4	1,256.8	1,445.9	1,857,9
Net trading result	214.6	216.5	241.7	277.9	351,1
General administrative expenses	-2,460.8	-2,594.9	-2,670.0	-2,945.3	-3,642.1
Operating result	1,370.1	1,454.1	1,659.4	2,003.6	2,547.7
Pre-tax profit	761.6	996.6	1,221.7	1,522.2	1,927.6
Net profit after minorities	353.3	520.8	716.7	932.2	1,174.7
Operating data					
Number of employees	37,830	35,862	36,150	50,164	52,442
Number of branches	2,370	2,242	2,283	2,721	2,908
Number of customers (million)	11.9	11.9	12.4	15.9	16.4
Share price and key ratios					
High (EUR)	24.55	39.80	47.50	59.00	61.50
Low (EUR)	14.61	24.78	36.36	40.40	44.00
Closing price (EUR)	24.49	39.30	47.05	58.10	48.50
Price/earnings ratio	16.6	18.2	16.0	19.7	13.0
Dividend per share (EUR)	0.38	0.50	0.55	0.65	0.75
Payout ratio	25.8%	23.2%	18.7%	22.0%	20.2%
Dividend yield	1.6%	1.3%	1.2%	1.1%	1.5%
Book value per share (EUR)	11.6	14.3	17.1	25.6	27.0
Price/book ratio	2.1	2.7	2.8	2.3	1.8
Total shareholder return (TSR)	54.6%	62.0%	21.0%	24.7%	-15.4%
Average TSR (since 1997 IPO)	15.7%	21.5%	21.4%	21.8%	18.3%
Number of shares					
Number of shares outstanding	239,775,232	241,442,892	243,183,600	315,296,185	316,288,945
Average number of shares outstanding	237,845,836	238,576,585	240,145,648	300,272,502	312,039,861
Market capitalisation (EUR billion)	5.9	9.5	11.4	18.3	15.3
Trading volume (EUR billion)	2.0	6.9	8.9	16.8	23.1

*) 2005 figures restated pursuant to revised IAS 19. Details on these changes 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 2007 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.

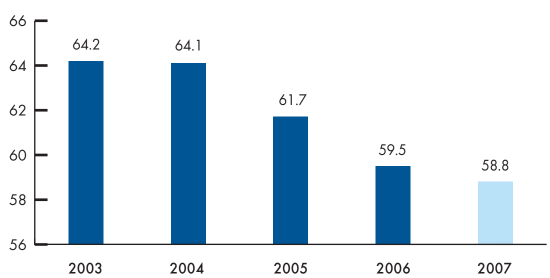
Cash earnings per share in EUR



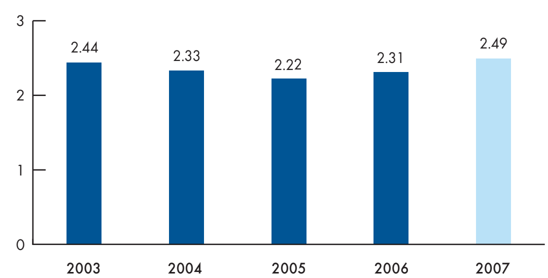
Cash return on equity in %



Cost/income ratio in %

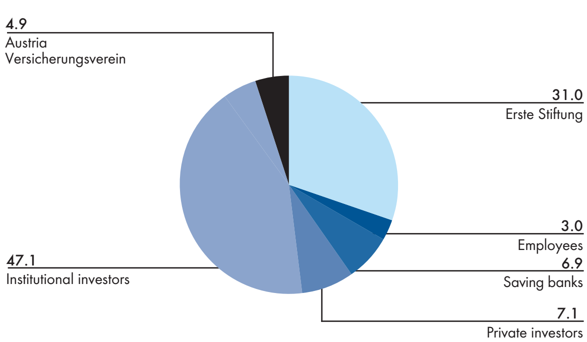


Net interest margin[1] in %

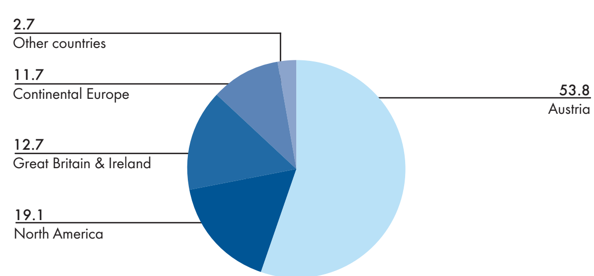


[1] Calculation based on average interest-bearing assets.

Shareholder structure at 31 December 2007 by investor, in %



Shareholder structure at 31 December 2007 by region, in %



INVESTOR RELATIONS

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Peter Makray
Telefon: +43 (0) 50 100-16878
E-Mail: peter.makray@erstebank.at

Ratings at 31 December 2007

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	B-
Standard & Poor's	
Short-term	A-1
Long-term	A

Highlights

10th consecutive record results
_Net profit surpasses EUR 1,000 million for the first time
_Cost/income ratio at only 58.8%

BCR integration nears completion
_Consolidation of back-office operations
_Adoption of group risk management standards

CEE continues on growth path
_Solid economic growth in most countries
_Mortgages and deposits drive market growth

Factual holding established
_Allocation of duties between holding and local banks
_Legal separation in the summer of 2008

Romania enters the EU
_Strong GDP growth accompanied by imbalances
_Central Bank with proactive monetary policy

Limited impact of credit crisis
_No exposure to US mortgage market
_No impairments, only revaluations of securities

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Letter from the CEO

Dear shareholders,

2007 was a significant year for Erste Bank. We completed a decade of consecutive record results, with net profit surpassing the EUR 1 billion mark for the first time ever. We fundamentally redesigned the structure of the group in order to be even closer to our customers. In addition, we fully achieved our targets in the key Romanian market and posted solid results across Central and Eastern Europe thanks to our favourable strategic positioning in retail banking. Despite these achievements, the defining event of 2007 was the rediscovery of risk triggered by the US subprime meltdown. While the repricing of risk was long overdue, by-products such as the loss of confidence in the worldwide banking sector and the lack of any differentiation between banks meant that our share price suffered heavily in the very year in which we celebrated our tenth anniversary as a public company.

Romania – a success story despite negative sentiment

Romania made substantial progress in 2007. The country joined the European Union one year ahead of schedule, the economy continued to grow strongly and our customers became wealthier. The country's rapid evolution was accompanied by imbalances that tend to be customary in the transformation process from command to market economy. In an indirect way these positive developments were the main reason for the widening trade deficit: early EU entry meant that the local economy had less time to prepare for the abolition of trade tariffs, increased attractiveness for strategic investors led to continued strong FDI inflows directly and indirectly contributing to short term import demand, and growth in disposable income also created additional demand. As this process will run its course, we will continue to see imbalances, albeit to a lessening degree, in line with the developments observed in other CEE countries.

Further positives included low levels of public and foreign indebtedness, and compared with other EU countries prudent fiscal policies. Inflation ticked up into the mid-single digits in the second half of the year, almost exclusively due to the drought and the much higher share of food supplies in the price basket, but was still way down on levels seen just two or three years ago. The country also benefited from a flexible exchange rate system that will help adjust external imbalances. Despite this currency volatility was very much in line with moves seen in other CEE countries in the past years: although the Romanian currency depreciated by 6.8% against the euro at year-end 2007, on average it appreciated by 5.4%.

Amid much focus on the macro environment, which we consider highly manageable especially against the backdrop of ten years of experience in the region, we have actually made excellent progress in restructuring the bank and achieved very demanding financial targets. We have rebranded the bank, restructured the product portfolio and started the headcount reduction programme as part of the centralisation of back-office functions. Underlying profitability rose by 42%, in line with our guidance. We have achieved everything we aimed for in 2007 and are equally optimistic about 2008 and 2009: we welcome the central bank's actions to curb exaggerated loan growth, as annual advances of above 50% were well ahead of our own expectations. Last but not least, our business plan is resilient and flexible enough to cope with exchange rate volatility, which we expect to be less pronounced than anticipated.

Prudent investment policy in structured products

While delivering on Romania was a key achievement, 2007 will be remembered for other reasons, most notably the break-out of the US subprime crisis that has haunted much of the financial services industry. Since the summer of 2007 we have been asked frequently about our exposure to and potential write-downs on asset-backed securities (ABS) and collateralised debt obligations (CDO). The fact that we hold an ABS/CDO portfolio worth EUR 3.4 billion and fared better than industry heavyweights was greeted with disbelief.

We have done our homework and did not invest into the riskiest of asset classes within the ABS/CDO universe: products that were either directly or indirectly linked to the US housing market. Being concerned about the state of the US real estate market we disposed of any such assets at an early stage and invested into standardised products only. Accordingly, we benefited from the excellent quality of the underlying assets, high levels of protection thanks to only considering the best tranches, and a ready secondary market. All this meant that the overall P&L impact was limited to EUR -30 million, while revaluations affecting equity did not exceed EUR -81 million. It also means that we do not expect any impairment write-downs from our ABS/CDO exposure in 2008.

Central and Eastern Europe continues to go strong

Despite intense focus on Romania, it only contributed about a quarter to our profits from Central and Eastern Europe in 2007, while the four developed transformation economies, the Czech Republic, Slovakia, Hungary and Croatia accounted for three quarters. Excluding Romania and the Ukraine, CEE profits grew by a very healthy 19% over 2006 with Česká spořitelna posting another record result on the back of stable economic growth and a predictable monetary policy. Slovenská sporiteľňa also benefited from an excellent operating environment and duly turned in a record operating result. The performance of Erste Bank Hungary is particularly noteworthy and serves as a good example that bank profitability is not exclusively tied to certain macroeconomic variables. Erste Bank Croatia achieved its best performance yet and has proven it can attract deposits without hurting margins. In the Ukraine we incurred substantial start-up costs as a result of our rapid expansion; at the end of 2007 we opened our 80th branch in the country and had a retail market share approaching 1%.

Under par share price performance

Our record fundamental performance stood in stark contrast to that of our share in 2007, which – at a decline of 16% – recorded its worst annual performance since our IPO in 1997. This development was a result of the rapidly deteriorating sentiment towards the banking sector in the wake of the subprime crisis, especially in the second half of the year, and bank-specific concerns. The latter related mainly to fears of market participants about the capital impact of an underperformance of our Romanian business due to perceived macro risks on the on hand, and write-downs on the ABS/CDO portfolio on the other. In this context, the leverage of the bank was also criticised as being too high. While we take these issues seriously, we are more sanguine about them as we believe the Romanian economy will turn out to be stronger than expected and our ABS/CDO investments are characterised by risk aversion. When allowing for minority assets or capital our actual leverage is also substantially lower than suggested by third party figures.

Confident about 2008

2008 started in much the same fashion as 2007 ended. Fears about a US recession led to further upheaval in the financial markets and accelerated the downward trend in share prices. Amid this environment our share was also hit hard. While we do acknowledge that the global economic environment is poised for a slowdown, we are confident about our prospects and achieving our financial goals for 2008 and 2009, and why should we not be? We have proved in the past that we can operate successfully and very profitably in more difficult economic circumstances, we have access to the largest retail funding base in the region and our market position in the fastest growing EU economies is enviable. Our real strength, though, is the commitment of our 50 thousand employees in Central and Eastern Europe.

Andreas Treichl

Management Board

AUSTRIA COMMITTEE

from left to right

THOMAS UHER
Appointed until June 2012
Born in 1965
He studied law at the University of Vienna. He joined Erste Bank in 2007 after working for Creditanstalt and Österreichische Bundesforste AG.
Member of the management board since July 2007.
Corporate Business, Balance Sheet Management, Controlling

ELISABETH BLEYLEBEN-KOREN
Appointed until June 2012
Born in 1948
She studied law in Vienna. She began her banking career with Creditanstalt-Bankverein in 1973 and joined Erste Bank in 1977.
Deputy chairwoman of the management board since May 1999.
Marketing, Organisation/IT, Communication, HR, Internal Audit, Savings Banks

BERNHARD SPALT
Appointed until June 2012
Born in 1968
He studied law in Vienna. He joined Erste Bank in 1991 and after various management positions in Austria and the Czech Republic was appointed as Chief Risk Officer to the management board in November 2006.
Group Risk Management, Risk Management International, Group Legal, Group Compliance

PETER BOSEK
Appointed until June 2012
Born in 1968
He studied law at the University of Vienna. He joined Erste Bank in 1996 after working for the University of Vienna.
Member of the management board since July 2007.
Retail Austria, Private Banking & Asset Management, Product and Channel Management

HOLDING COMMITTEE
from left to right

PETER KISBENEDEK
Appointed until June 2012
Born in 1964
He studied at the University of Economics in Hungary. He joined Erste Bank Hungary in 2000 after various positions at major international companies such as AB Aegon and Philip Morris.
Member of the management board since July 2007.
Group Accounting, Group Performance Management, Strategic Group Products

BERNHARD SPALT
Appointed until June 2012
Born in 1968
He studied law in Vienna. He joined Erste Bank in 1991 and after various management positions in Austria and the Czech Republic was appointed as Chief Risk Officer to the management board in November 2006.
Group Risk Management, Risk Management International, Group Legal, Group Compliance

ANDREAS TREICHL
Appointed until June 2012
Born in 1952
He studied economics in Vienna. He started his career with Chase Manhattan Bank in New York in 1977. He first joined Erste 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.
Group Communication, Group HR, Strategic Group Development, Group Secretariat, Group Audit, Group Marketing, Group Investor Relations

JOHANNES KINSKY
Appointed until June 2012
Born in 1964
He studied Law, History and Political Science at the Institut d´Etudes Politiques de Paris. He held various positions at Deutsche Bank and JP Morgan before joining Erste Bank.
Member of the management board since July 2007.
Group Real Estate & Leasing, International Business, Group Large Corporate Banking, Group Investment Banking

HERBERT JURANEK
Appointed until June 2012
Born in 1966
He joined Erste Bank in 1999 after working for GiroCredit Bank AG and Reuters Ges.m.b.H. Austria.
Member of the management board since July 2007.
Group Organisation, Group IT, Group Operations/Processing, Card Operations

FRANZ HOCHSTRASSER
Appointed until June 2012
Born in 1963
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.
Group Balance Sheet Management, Group Capital Markets, Group Research

Supervisory Board Report

Heinz Kessler, President of the Supervisory Board

Dear shareholders,

In the completed financial year we fulfilled our legal responsibilities and Erste Bank's articles of association. We 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 business items, experts were brought in to supply detailed information. Current specific matters and decisions were discussed in meetings between the chief executive officer and the supervisory board president.

Supervisory board meetings

The supervisory board met six times during the 2007 financial year. All members attended at least half of the meetings.

At its meeting on 6 February 2007 the supervisory board was updated on the current status of the factual holding company structure. A candidate identified in the preselection procedure by the management board committee, Johannes Kinsky, was introduced as a possible new member of the management board.

On 21 March 2007 the company financial statements and management report and the consolidated financial statements and group management report for 2006 were reviewed and approved, as recommended by the audit committee. The proposal for the appropriation of net profit for 2006 was also endorsed. In addition, the supervisory board discussed the corporate governance report, adopted the Employee Share Ownership Plan (ESOP) 2007 and took note of the agenda for the 2007 annual general meeting.

At the constituting meeting on 31 May 2007, Johannes Kinsky was appointed to the management board with effect from 1 July 2007. Terms of reference were adopted for the management board and its newly established committees, and members were chosen for the supervisory board committees.

In several sessions during the year, special reports were heard on the situation at the CEE banking subsidiaries in Romania and Ukraine. The supervisory board was also regularly informed on the current group financial results, the market risk and risk absorption capacity, and the situation in credit markets. At the meetings the supervisory board committees reported on their activities.

At the session on 27 June 2007 the board was updated on the current status of plans for the Zentralbahnhof headquarters and briefed with the report on equity holdings.

On 19 September 2007 the subprime crisis and its implications were discussed in detail.

On 12 December 2007 the supervisory board was briefed on the 2008 budget and approved the overall investment plan for 2008. The new procurement organisation and the CDO portfolio of the Erste Bank Group were presented. As well, we were informed on the activities of the Erste Bank Group outside its core market.

Committees of the supervisory board

The management board committee at its meetings dealt with and approved the management board members' renegotiated employment contracts, which took effect 1 July 2007. It also decided on the bonuses of the management board members.

The audit committee met four times in 2007. On 26 February 2007 the agenda included the company's and the consolidated preliminary financial results; the auditors reported on the status of the audit of the company financial statements and consolidated financial statements. The head of group audit explained the audit plan for 2007. Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. was approved as an additional auditor of the company and the group for the financial year 2008.

The audit committee held the final audit meeting on 21 March 2007. At this session the company financial statements and management report and the consolidated financial statements and group management report were examined and the ratification of the company financial statements was recommended to the supervisory board. The management board's proposal for the appropriation of 2006 net profit available for distribution was received.

On 30 July 2007 the audit committee was briefed on the Austrian central bank's (OeNB's) onsite audit and the antimoney-laundering audit, and the new organisational structure was explained to the auditors.

At the meeting on 12 December 2007 the independent auditors reported on the result of the preliminary audit and the audit priorities, and the committee was briefed on the OeNB audit report.

In its 17 meetings held in 2007 the risk management committee regularly made decisions on those investments and loans exceeding the scope of the management board's approval authority, and received reports on the credit facilities approved within the management board's powers. The committee was regularly kept informed with respect to market risk, riskabsorption capacity, asset quality and structured finance. Special reports covered, among other subjects, the evolution of the credit portfolios of the CEE banking subsidiaries; hedge funds; changes in the risk organisation related to the BCR integration; and the subprime crisis.

The strategy committee met four times in 2007. Among other matters, it dealt with the situation at the CEE banking subsidiaries in Romania and Ukraine and current developments at other subsidiaries, as well as regularly addressing the current financial data for the group. The strategy committee was also briefed on the subprime crisis and the stock market situation.

Financial statements

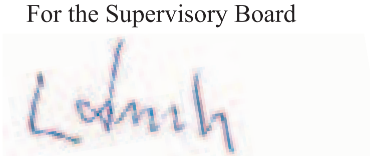
The company financial statements and management report as well as the consolidated financial statements and group management report for 2007 were audited by, and received an unqualified opinion from, Sparkassen-Prüfungsverband as the legally mandated auditor and Deloitte Wirtschaftsprüfungs GmbH as the 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

Josef Kassler, who had been a member of Erste Bank's supervisory board since 2000, and Lars-Olof Ödlund, a member since 2002, retired from the supervisory board as of the fourteenth annual general meeting on 31 May 2007 and were not available for an additional term. Speaking for the entire supervisory board, I would like to extend our sincere thanks to both of them for their years of involvement and commitment.

The fourteenth annual general meeting elected myself and, as firsttime members, John James Stack and Brian Deveraux O'Neill to the supervisory board of Erste Bank, for a term running until the conclusion of the general meeting that decides on the discharge from liability for the 2011 financial year.

For the Supervisory Board



Heinz Kessler
President of the Supervisory Board

Vienna, March 2008

Supervisory Board

HEINZ KESSLER
President of the Supervisory Board
Tenure: 26 May 1998 – AGM 2012
Retired Chief Executive Officer
Additional supervisory board memberships:
Deputy Chairman Austria Versicherungsverein auf Gegenseitigkeit Privatstiftung
Member 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 University of Vienna
Professor of Economics at the University of Vienna
Additional supervisory board memberships:
Member
Austria Versicherungsverein auf Gegenseitigkeit Privatstiftung
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:
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:
Chairwoman Drina Neretva Kraftwerke Aktiengesellschaft
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 Council of Oesterreichische Nationalbank

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

JOSEF KASSLER
Tenure: until 31 May 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: until 31 May 2007
Advisor
Additional supervisory board memberships:
Chairman EntreprenadMaskinSpecialisten i Sthlm AB
Chairman Eurotema AB
Chairman e Builder AB
Chairman Litorina Capital Management AB
Chairman Scandi Tech Holding AB
Member APE Group AB

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

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

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

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

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

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

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 (until 1 May 2007)
Member of the Central Staff Council

CHRISTIAN HAVELKA
Member of the Central Staff Council

ANTON JANKU (until 26 November 2007)
Member of the Central Staff Council

FRIEDRICH LACKNER (since 1 May 2007)
Member of the Central Staff Council

KARIN ZEISEL (since 26 November 2007)
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 adopted changes to five rules of the Code on 22 June 2007. These amendments became necessary primarily as a result of changes to the Austrian Stock Exchange Act (implementation of the EU transparency directive).

Clear commitment and external evaluation

In the 2007 financial year Erste Bank complied with all legal requirements ("L rules") and recommendations ("R rules"). The departures from two "comply-or-explain" provisions (C rules) are described and explained on the website of Erste 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 evaluation established that Erste Bank complies with all rules of the Code. The review summary is available on www.erstebank.com/investorrelations.

One share – one vote

Erste Bank is listed on the Vienna and Prague stock exchanges and, since 14 February 2008, on the Bucharest Stock Exchange, with 316.3 million ordinary shares outstanding at the end of 2007. There are no preferred shares and no restrictions on ordinary shares. In Erste Stiftung, a foundation which owns 30.6% of the share capital, Erste Bank has a principal shareholder with a long-term focus. The shareholder structure at the end of 2007 is presented on the inside cover of this report.

Compliance

The responsibility for all compliance issues at Erste Bank rests with the group compliance office, a staff unit reporting directly to the chief risk 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 transactions, research disclaimer, gift policy etc.

Directors' dealings

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

Transparency

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

Risk management

Erste 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 42 onwards, in the "Segments" section of this report.

MANAGEMENT BOARD

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

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

Factual holding company structure

In preparation for the planned splitting of Erste Bank in the third quarter of 2008, the group was given a new organisational structure as of 1 July 2007. Two operating units were created for the interim period until the legal separation is made: one unit is responsible for the activities of the future holding company, the other looks after the Austrian business. The organisational separation was executed at all levels of the hierarchy. Within the management board, two corresponding committees were formed: a holding management board committee with Andreas Treichl as chairman and Franz Hochstrasser, Herbert Juranek, Johannes Kinsky, Peter Kisbenedek and Bernhard Spalt as members; and an Austria management board committee with Elisabeth Bleyleben-Koren as chairwoman and Peter Bosek, Bernhard Spalt and Thomas Uher as members. Bernhard Spalt, as Chief Risk Officer, sits on both committees. The remit of the holding management board committee comprises group strategy and control, infrastructure and the Group Corporate and Investment Banking as well as Global Markets divisions. The foremost responsibility of the Austria management board committee is the retail and corporate business in Austria. The supervisory board meeting on 31 May 2007 approved the terms of reference for the new committees of the management board.

The group executive committee

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

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

Compensation of the management board

The total remuneration of the management board is structured so as to be aligned as closely as possible with the interests of shareholders and is described in detail in the Notes on page 102. It consists of a fixed base salary, a performance-related bonus, non-cash compensation and share options. The criteria for the management board's performance-related pay are return on equity and the size of the dividend as a percentage of par value.

The maximum bonus of 117% of the annual gross salary is paid out when the dividend payment surpasses 20% of the share capital and return on equity is at least 16%. The supervisory board may from time to time award separate bonuses for extraordinary performance. In the case of three board members the supervisory board awarded such bonuses in 2006. 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 compensation of the management board was 35.5%.

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

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

SUPERVISORY BOARD

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

The composition of the supervisory board, as well as the additional positions held by its members, are presented beginning on page 8. Details on the supervisory board's compensation are found in the Notes on page 103.

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 supervisory board independence. Based on these criteria, all members of the supervisory board have declared themselves independent. As the former CEO of Česká spořitelna (until May 2007) John James Stack declared himself not independent pursuant to the Guidelines for Independence.

Committees of the supervisory board

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

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

_Chairman: Friedrich RÖDLER
_Heinz KESSLER
_Georg WINCKLER
_Theresa JORDIS
_Bettina BREITENEDER
_Elisabeth GÜRTLER
_Christian HAVELKA
_Erika HEGMALA
_Friedrich LACKNER
Substitute members: Jan HOMAN and Wilhelm RASINGER

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

_Chairman: Heinz KESSLER
_Georg WINCKLER
_Theresa JORDIS
_Jan HOMAN
_Friedrich RÖDLER
_Gabriele ZUNA-KRATKY
_Günter BENISCHEK
_Ilse FETIK
_Christian HAVELKA
Substitute members: Jan HOMAN and Wilhelm RASINGER

The audit committee is responsible primarily for the auditing and preparation of the adoption of the company financial statements; 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 of 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
_Ilse FETIK
_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

The company financial statements, company management report, consolidated financial statements and group management report of Erste Bank for the financial year 2007 were audited by Sparkassen-Prüfungsverband as the legally mandated auditor and by Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H., appointed by the annual general meeting as the supplementary auditor.

Corporate Social Responsibility

INTRODUCTION

The principle of socially responsible action has deep roots at Erste Bank. In 2007 this was once again reflected in a number of awards: For its ESPA WWF STOCK UMWELT fund, Erste Bank won the TRIGOS award in recognition of responsible entrepreneurship. Similarly, the NESTOR was awarded to Erste Bank by the federal ministry of social affairs and consumer protection for practicing age diversity as an integral part of the corporate culture, creating an ageing-appropriate work environment and specifically supporting older staff members.

For "Kontakt. The Arts and Civil Society Program of Erste Bank", Erste Bank was honoured with the prestigious MAECENAS arts sponsorship award. The programme was qualified as a model initiative that sets standards in Austria. An online survey of 200 employees of NGOs and not-for-profit organisations conducted by the Center for Corporate Citizenship on the social responsibility of the 22 companies in the ATX stock index – leading to a ranking in the so-called Responsibility Index – reaffirmed the result of the 2006 CSR Austria Awards, with Erste Bank again ranking first.

UPDATE – CSR PROGRAMME

The most important initiative to come out of the implementation of the 2005 action plan was a group-wide employee survey carried out in autumn 2007. The most significant insights gleaned from it are briefly outlined in the "Staff" section below. In addition, for the first time we present details on the CSR activities of the Central and Eastern European subsidiaries, illustrating their integration in the group's CSR development process.

CUSTOMERS

Client satisfaction is one of the top success factors for Erste Bank. It is inseparable from the development of relevant products, ongoing client support in financial life-planning, and well-focused education on handling money wisely.

In the Austrian consumer business, the main areas of emphasis in product development were long-term savings, customers over 60 and the broadening of the range of environmentally friendly investment funds. Both in long-term savings and the over-60 demographic, the focus was on expanding the offering of information and financial advice. Thus, 20 events were organised around the topic of inheritance and estate planning, and a telephone hotline was set up on this subject together with the lawyers' and notaries' professional associations. Under the name of "s Pflegevorsorge", a long-term-care insurance product was brought to market that not only cushions the financial impact of a long-term care eventuality, but also provides an array of related services, such as a round-the-clock emergency hotline.

The fund offering was expanded by another ethical, environmentally responsible fund. After the previous year's joint launch with the World Wildlife Fund of the ESPA WWF STOCK UMWELT fund, Erste Bank again partnered with the WWF to establish ESPA WWF STOCK CLIMATE CHANGE, a fund investing predominantly in shares of companies whose business activities relate to slowing down the pace of global climate change. As with ESPA WWF STOCK UMWELT, Erste Bank waives some of its revenue from the fund to benefit climate protection projects of the WWF in Austria.

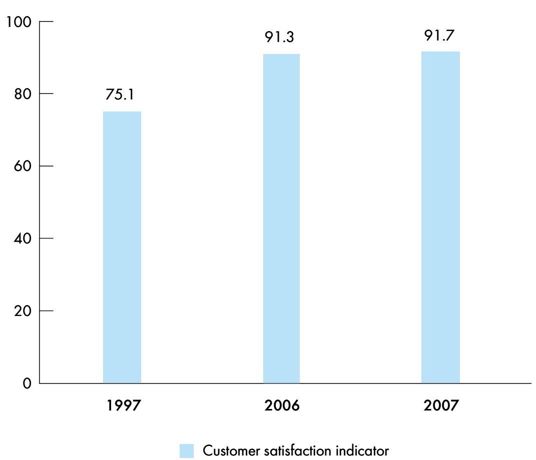
In 2007 Erste Bank also created an innovative microfinance product – a first in Austria. This microfinance bond issue gave clients access to a completely new form of investment and underlines Erste Bank's commitment to ethical and socially responsible business principles.

In total at the end of 2007, the group's ethical funds had assets under management of EUR 1.27 billion, representing 4.2% of the total assets managed by group funds and a market share of more than 60% in the segment of ethical and environmental funds as a whole.

In the small and medium enterprise (SME) customer segment, support for business start-ups remained paramount. Especially in an economy driven mainly by SMEs, lending to young entrepreneurs is in effect a way of practicing social responsibility. Specifically, activities ranged from providing consulting and continuing education via the "GO!" academy for entrepreneurs all the way to giving free expert feedback on entries in a business plan competition.

Thanks to the expansion of relevant products and advisory services, customer satisfaction levels continued to rise slightly in 2007. Customer satisfaction is measured, among other ways, by sending mystery customers to the branches several times per year and by detailed surveys conducted on a three-year cycle. The mystery shoppers evaluate all points of contact between customer and staff. The resulting feedback promotes maximum customer focus, which has been reflected in the improvement in the customer satisfaction indicator. From 75.1% at the beginning of measurement in 1997, the value has risen to 91.7% in 2007. In addition, customers are able to have input into the ongoing improvement process by contacting our complaints and suggestions office with criticism, compliments or ideas.

Customer satisfaction in Austria
in %



Numerous customer-related activities were also undertaken in Central and Eastern Europe. Examples in the Czech Republic were:

- **_Commencement of the groundwork for establishing an independent credit counselling service that begins operations in 2008, in partnership with the Czech consumer protection association. In this way Česká spořitelna wants to support both those consumers who are contemplating obtaining credit but need more information first, and those who have difficulty repaying a loan and require independent advice.**
- **_Expansion of the loyalty programme together with Nadace České spořitelny, a foundation set up by Česká spořitelna. This allows customers and staff to make loyalty reward points earned through banking transactions available to charitable organisations. In 2007 the initiative was able to support six charity projects.**
- **_Establishment of Česká spořitelna as a financial backer of energy efficiency projects of SMEs, in close cooperation with the International Finance Corporation.**

In Romania, the top priorities in customer-facing developments at Banca Comercială Română, in which Erste Bank holds a 69% stake, were placed on client service to SMEs and the expansion of a nationwide network of EU advisory offices. Small and medium-sized companies are the backbone of the Romanian economy, with a substantial share of new job creation. By administering various EU and EBRD structural funds, BCR made an active contribution to the creation of seven thousand jobs in 2007. The establishment of EU advisory offices as well had as its aim to support communities and SMEs in accessing EU monies essential to urgently needed infrastructure projects.

CIVIL SOCIETY

In 2007, Erste Bank's commitment to civil society continued to be fulfilled largely under the umbrella of "Kontakt. The Arts and Civil Society Program of Erste Bank", the platform for Erste Bank's social and cultural involvement in the Central and Eastern European region. Some of the projects carried out in this context were:

- **_In music: Support of Klangforum Wien (a leading ensemble of soloists for contemporary music) and awarding of the annual Erste Bank composition commission**
- **_In film: Sponsoring of the Viennale, Austria's largest film festival**
- **_In fashion: Presentation of the "Kontakt. Fashion Award by Erste Bank"**
- **_In literature: Awarding the Jean Améry prize for essay writing and sponsoring the "TOP 22" project, which introduces Central and Eastern European writers to a wider audience in Austria.**

As part of the engagement in the fine arts, we maintained the partnership with Secession (a renowned artists' association and independent gallery), further expanded the Tranzit platform (a network of Central and Eastern European contemporary art initiatives) and continued to increase the number of galleries supported through Viennafair, the international contemporary art fair focused on CEE. As well, “Kontakt. The Art Collection of Erste Bank” was presented in Belgrade.

In the dimension of social causes, the longstanding partnership with Caritas was continued to good effect, thus supporting the improvement of economic and social conditions in Central and Eastern Europe. The programme in 2007 again centred on work with and for children in the poorest countries in Europe. Specifically, Erste Bank supported a home in the major Ukrainian city of Kharkov where 40 street children find shelter from violence, crime and prostitution. For 200 children from socially disadvantaged families, the institution also offers courses in a wide range of subjects from English and computer skills to the trades.

Another important thrust of the joint activities of Caritas and Erste Bank is the fight against poverty in Austria. Thus in 2007 Erste Bank continued its support for the annual Caritas campaign for people in need in Austria, which aims to help ease the suffering of almost half a million people at risk of falling into poverty.

Likewise, the group continued the collaboration underway since 2003 with Österreichisches Hilfswerk, a non-profit organisation that is one of the largest Austrian providers of healthcare and general care for the ill, the elderly and children. The focus of the partnership in 2007 was on care and family.

The sports sponsorship involvement in Austria for 2007 remained focused on the school soccer and volleyball leagues, the role as principal sponsor of the Austrian hockey league and the support of numerous running events.

In Central and Eastern Europe important projects for good causes were conducted in the Czech Republic, Slovakia and Romania:

_In the Czech Republic the “Charity Day” was established, which enables employees to spend two days per year working for charitable causes while receiving full pay. The foundation set up in 2002 by Ceska sporitelna, Nadace České spořitelny, also continued its effective work, with the extensive involvement of the savings bank’s customers and staff. In recognition of its many ways of benefiting civil society and the strong donor activity, the Česká spořitelna was honoured with an award by the Czech Donors Forum.
_In Slovakia last year the foundation established by Slovenská sporiteľňa (SLSP), Nadácia Slovenskej sporiteľne, backed a total of 153 projects in education, healthcare, culture and regional development. For instance, it financed the construction of a new physiotherapy centre in Trenčín for children with polio. The support given to a project called Protected Home made it possible for physically and/or mentally challenged people to live an independent life of higher quality. For mothers on maternity leave, an innovative training project was sponsored. For its contributions to civil society, SLSP received the Via Bona Award.
_BCR’s community work in 2007 spanned fields ranging from education, to culture, to sports: BCR was the main partner to Sibiu, the city designated as the European Capital of Culture for 2007, and sponsored a multitude of other cultural events. Education and training programmes at schools and universities received support and the collaboration with UNICEF was continued.

STAFF

Group-wide employee survey

As announced in the last annual report, in autumn 2007 Erste Bank conducted its first group-wide staff survey. A total of 41,875 employees in 55 organisations (banks and other subsidiaries) had the opportunity to participate. The survey was taken anonymously online, with a participation rate of 55%. Detailed results will be presented in the next annual report. The preliminary findings at the time of this writing were as follows:

_Employees identify closely with the company.
_They trust in the company and in the continuous process of change.
_Satisfaction with working conditions is very high.
_Customer focus is seen as one of the most important values.
_There is a high degree of openness to ideas from other countries, in the spirit of best practice.

Enterprise-wide talent management

By introducing coordinated group-wide talent management in October 2006, a comprehensive process was initiated that is intended to promote better identification of promising people and their development and deployment in group-level roles and positions. The wider purpose is to create a new generation of managers and experts who, on the basis of shared values and goals, will make critical contributions to the management and direction of Erste Bank. The Group Leadership Development Programme has a modular structure to allow people in management positions to enrol over long periods and ensure the gradual achievement of the programme goals.

Staff development in Austria

The key theme in personnel development activities in 2007 was the preparation for a new leadership and manager development programme. Its guiding idea is to provide optimum support to managers in their role and their development, by keeping proven approaches while also integrating desirable modern practices. The programme's success is to be assured by offering focused, hands-on, tailored development opportunities. Particular attention was also paid to conveying the importance of leadership.

Key indicators – Employees (Austria, without savings banks)

	2007	2006	2005
Fluctuation	5.5%	4.8%	4.5%
Sick days per year	7.0	7.1	8.2
Training days per year	3.2	2.6	2.6
Women in management positions	22.9%	23.1%	24.3%
Share of part-time staff	22.5%	22.8%	23.4%
Share of female part-time staff	85.5%	86.4%	86.8%

Other human resource development measures focused on easing the entry into sales positions. Under the slogan "Erste Bank goes Campus" a new approach to integration was tried as a pilot scheme: A group of high school graduates, after an intensive training period and personal coaching by experienced mentors, was given the opportunity to spend seven months practicing interaction with customers, conducting sales conversations, and becoming familiar with the branch business without operational pressure to produce results. The approach succeeded in preparing the new employees even better for becoming highly effective customer service representatives.

LIFETIME: For an age-appropriate work environment

Measures under the LIFETIME project centring on health, corporate and leadership culture, training, young employees and sales continued to be implemented effectively in 2007. They included:

_An intensive focus on employees who are three to five years from retirement, in order to actively structure their last years of work with a view to knowledge-sharing, transition management, departure planning and preparation for a new life stage.
_Bringing all managers up to date on recent scientific insights concerning age-appropriate staff management, with the aim of maximising the use of older employees' strengths for the company.
_A broad and attractive offering of preventative healthcare services, both in physical and mental health.
_Active "talent scouting" in graduating classes for early contact with prospective job applicants.
_Special age-group-specific offers for customers over 60 and increasingly age-appropriate matching of staff to clients.

One of the outcomes of the LIFETIME project led to the establishment of the Work Life Centre (WLC). The WLC offers employees professional support on their individual path to physical and mental wellness as an important prerequisite for a sustained high willingness and ability to perform. Through presentations, courses (for example, exercise or relaxation classes) and counselling sessions, highly qualified trainers from a wide variety of disciplines instruct participants in recognising and using personal resources. One area of emphasis was keeping staff on parental leave in touch with developments at work through regular information sessions. An innovation in 2007 was a novel Austria-wide project to enhance coordination ability in branch sales. The high voluntary participation by branch staff of more than 40% reflected the project's effectiveness and popularity.

Another outcome of the LIFETIME project was the restructuring of the Work Health Centre (WHC). In 2007 the WHC, in the form of the First Health project – the Erste Bank health check-up for apprentices – developed a comprehensive and holistic staff health promotion scheme specifically targeted to commercial trainees. Erste Bank employs about 100 apprentices aged 15 to 19, taking on 30 to 35 new individuals every year. The object of First Health is not just the focused maintenance and improvement of trainees' current health, but also to raise their awareness of the importance and means of good personal healthcare and prevention. The individual elements of the First Health initiative are designed to strengthen trainees' healthcare resources and equip them to identify and work on existing deficits. Modules taught on specific subjects promote health consciousness and self-determination of personal health in this target group.

Healthcare programmes

Employees' health remained a prime concern for Erste Bank in 2007. All Erste Bank employees had access to prevention programmes throughout the year. The offering of services ranged from regularly organised eye examinations and vision tests, to expanded medical check-ups, to melanoma screening. About 40% of staff in Austria made use of these services. At the Work Health Centre, employees have access to medical advice and psychological counselling, nutrition advice and physiotherapy.

Central and Eastern Europe: Focus on BCR

In Central and Eastern Europe the biggest task in human resource management was the work to ensure the socially responsible restructuring of BCR. The impact of the staff reduction begun in 2007 was softened by a large number of measures:

- **Establishment of an outplacement programme to help laid-off employees find new work through individual career counselling and related assistance. Training and retraining are part of the package offered, as is the preparation of personal development plans.**
- **Generous termination benefits. On leaving the bank, employees who are within eight years of retirement or have serious health problems receive an attractive severance package. Eight hundred staff members benefit from this safety cushion.**

ENVIRONMENT

The information and data on the environment-related activities of Erste Bank in Austria, first reported on in the 2006 annual report, were further expanded in 2007. Through the 2007 Ökoprofit project, these efforts won Erste Bank public recognition as an "ÖkoBusiness" company under an initiative by the Vienna city government. The data below shows the trend from 2005 to 2006. The expansion of office floor space was optimised, thus keeping it minimal at just 1% despite the growth in employees in the central office buildings of Erste Bank in Austria.

Key indicators – environment*

	2006	2005
Flight distance (km per employee)	1,643.3	938.0
CO_2 emmissions (tonnes per employee)	2.9	2.7
Water consumption (litres per employee)	12,209.8	15,586.0
Paper consumption (kg per employee)	47.2	55.9
Energy consumption (kWh per employee)	320.0	332.3
Electricity (kWh per employee)	196.0	190.8
Heat energy (kWh per employee)	136.2	129.2
Waste (kg per employee)	346.2	279.5

*) Flight distance and CO_2 emmissions based on data of Erste Bank AG in Austria or 4,184 employees. Other data based on central office buildings of Erste Bank AG in Austria ie 55,301 sqm or 2,624 employees.

Consumption of energy and paper fell significantly, thanks especially to the regular systematic monitoring and analysis of energy use, the organisational involvement of all staff in the sparing use of paper, ventilation, heating and cooling, and the continued modernisation in the course of required renovations, such as the upgrading of lighting.

In some buildings office space optimisation led to an increase in electricity consumption (upgrading of data centre rooms in some buildings) and the installation of cooling equipment in exposed areas of existing buildings. Also, the mild winter season made for additional savings in heating energy.

The sharp increase in the quantity of waste generated was caused by the very intensive relocation and modernisation activity in some locations and the accompanying disposal of office waste. The effects of the waste reduction programme should become visible in the data for 2007. The strong rise in average kilometres flown per employee was attributable to the acquisition of banking subsidiaries in Romania and Ukraine.

The waste reduction programme planned for 2007 was put into practice and, additionally, a new waste separation campaign was successfully started at all properties of Erste Bank Austria. A formal environment policy for Erste Bank Austria was adopted in 2007 as planned. One of the tangible results was the implementation of an environmentally friendly policy on printers. It was also decided to buy natural-gas-powered vehicles for the technicians of the property management subsidiary, with delivery scheduled for 2008. If the technology proves itself in use, the entire fleet will be converted to natural gas operation.

Environmental activity preview

The following will be key elements of the environment-related activities in 2008:

- **In 2007 Erste Bank launched an architecture competition for a new corporate headquarters, with a particular emphasis on environmentally significant features of the building complex. Construction is to be completed by 2012. The first designs for the innovative project are expected to be received next year.**
- **The recording of environmental data at the Erste Bank branches is to begin, thus expanding data collection in the group.**
- **Completion of Erste Bank's new programme for replacing printers and multifunction machines.**
- **Continuation of energy use monitoring and start of training in the economical use of resources (with the help of the so-called "Klima aktiv mobil" programme).**

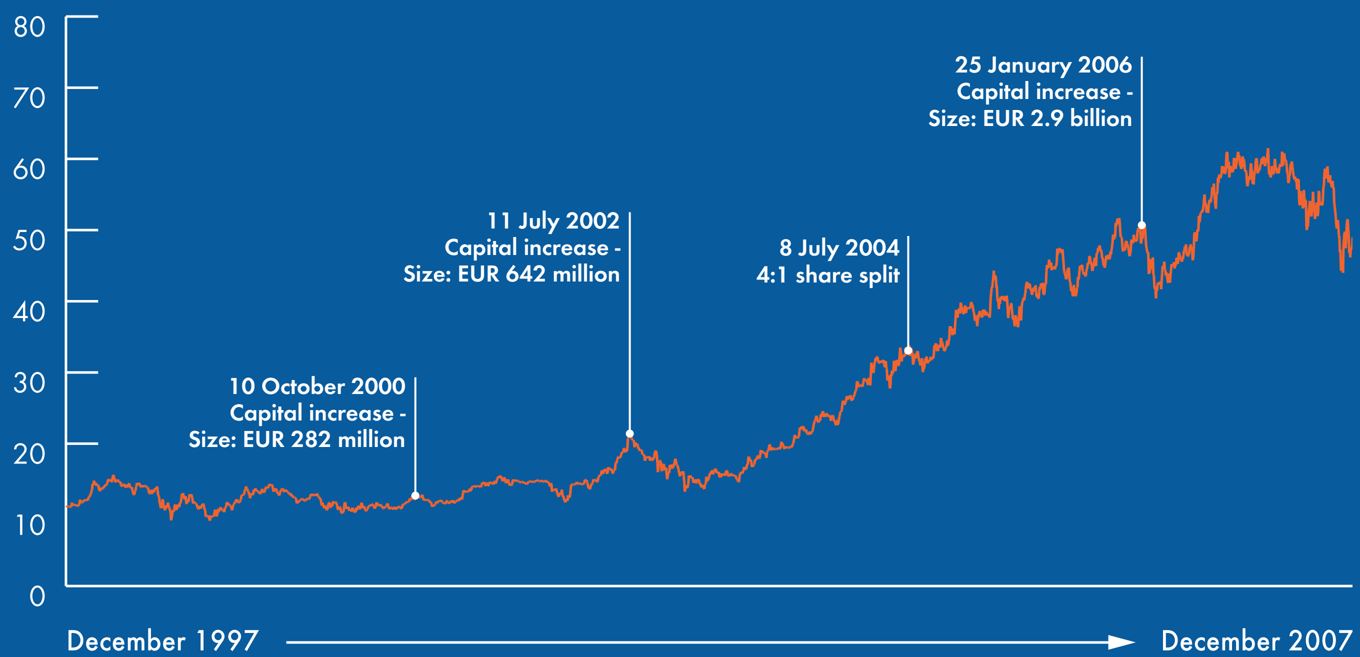
Procurement

As announced in the last annual report, under the group-wide supply chain management, ethical standards are being incorporated in the master agreements with suppliers. These new mandatory rules take immediate effect for every new contract and are phased in for existing agreements.

Share price eases

Impacted by credit crisis and deteriorating sector sentiment

Performance of the Erste Bank Share in EUR



0.75 EUR dividend

Renewed dividend increase of 15%

Payout ratio stable at 20%

Erste Bank Share

Since its initial public offering in 1997 the share price of Erste Bank has enjoyed steady appreciation. The key driver of the positive performance was the successful expansion strategy over the past years and the group's growth into one of the leading financial services providers in Central and Eastern Europe with a customer base of more than 16 million clients. Amid the negative impact of the US subprime crisis on financial shares in the USA and Europe, the Erste Bank share, despite continuing record financial results, registered its first calendar-year price decline since 1999.

PERFORMANCE OF EQUITY INDICES

US mortgage crisis triggers volatility

In 2007, although most international equity markets were able to maintain the prevailing upward trend of the last five years, the performance for the year was well below that of the previous years, when annual rates of advance had been in the double digits. After the first half of 2007 – during which positive macroeconomic and corporate news still lifted stock markets to significant gains and some indices in the USA and Europe even reached new all-time highs – share prices were sent downward by heightened volatility that emanated from the US-centred crisis in the mortgage market. On balance, despite the price declines in the third and fourth quarter, most of the observed equity markets ended the year on a net gain. Germany's DAX stock index performed best, with an advance of about 22%. The Dow Jones Industrial Average in the USA rose 6.4% over the year; the European Eurotop 300 Index was up 1.6%. By contrast, the stock markets in Switzerland, Italy and Japan closed the year lower than twelve months earlier.

The performance on stock markets last year was driven by the persistent financial and credit crisis in the USA and its effects on the real economy. A combination of drastic quarterly earnings declines and losses at the major American banks (Citigroup, Bank of America, JP Morgan, Merrill Lynch, Morgan Stanley and others) reflecting multi-billion-dollar write-offs, the involvement of European banks in the US subprime meltdown, and worldwide fear of a liquidity crunch all caused share prices in Europe to fall significantly and increasingly unnerved investors. Additional downside factors were new all-time highs in the euro against the US dollar and the rise in oil prices to almost USD 100 per barrel. The desired calming of financial markets failed to be achieved by the three cuts in US benchmark interest rates since the middle of September, by the interventions of the US Federal Reserve (the Fed), the European Central Bank (ECB) and other central banks to expand liquidity in the money market and by the US government's emergency plan for combating the subprime crisis.

Banking sector under pressure

European banks found themselves at the centre of investor attention during the reporting period due to the uncertainty over the amount and consequences of their exposure to non-performing US mortgage loans and credit derivatives. Liquidity shortages, write-downs in the billions of euros and the publication of sharp earnings reductions or losses for the third quarter by some European financial institutions (UBS, Deutsche Bank, Credit Suisse, Northern Rock, among others) led to substantial falls in share prices, in some cases in the double-digit range. The Dow Jones Euro Stoxx Bank Index, which represents the most important European banks, closed the year at 407.32 points. As a result of the lasting international credit crisis and the likelihood of falling corporate earnings (or losses) and dividend cuts, the index gave up 8.9% in the period under review.

ATX affected by international environment

After setting a new all-time high of 4,981.87 points on 9 July 2007, Austria's blue-chip ATX index was also drawn into the downdraft of the negative international stock market environment and followed a volatile trajectory. With a closing index level of 4,512.98 points at the end of December and a performance of 1.1% for 2007, the ATX was not able to replicate the previous years' double-digit gains. Positive drivers for the Vienna stock exchange were increased trading volume, which on average rose from EUR 10.5 billion to almost EUR 15 billion, and an influx of capital from public offerings and capital increases totalling EUR 10.1 billion that approximately matched the record inflows of the year before.

ERSTE BANK SHARE PERFORMANCE

Performance below that of recent years

Having marked its high to date on 27 April 2007 at a closing price of EUR 61.50, the Erste Bank share suffered significant setbacks in the further course of the year in the turmoil generated by the subprime crisis. At the end of 2007 the share closed at EUR 48.50, down 16.5% for the year. This was in line with the average performance of European financial shares, most of which also saw price losses in the double digits. Unlike some

European banks, however, Erste Bank remained on its growth path in 2007, delivering record results. Moreover, Erste Bank is not invested in the US mortgage market or in subprime loans. Accordingly, only mark-to-market revaluations, rather than write-downs were required. Concerns of international investors regarding the further macroeconomic trend in Romania and its possible effects on BCR (the country's largest bank and 69% owned by Erste Bank) likewise took a heavy toll on the share price. Recommendations from the 24 investment banks that regularly produce research on Erste Bank remained predominantly positive. The research reports singled out in particular Erste Bank's successful course of expansion and integration as exemplary in the CEE banking sector. The management's reaffirmation of the financial targets supported most analysts' estimates for earnings growth, cost control and the benefits accruing from restructuring and efficiency-boosting projects.

Trading volume and market capitalisation

Owing to the price decrease in the reporting period, the market capitalisation eased despite the increase in the number of shares through the ongoing employee share ownership and management stock option plans. Share turnover was raised further. On average in 2007, about 850,888 Erste Bank shares were traded per day on the Vienna Stock Exchange. This represented an increase of about 21% in average daily turnover compared to one year earlier.

Performance of the Erste Bank Share in comparison*

	Erste Bank Share	ATX	DJ Euro Stoxx Bank Index
Since IPO (Dec 1997)	337.6%	245.9%	–
Since SPO (Sep 2000)	312.8%	286.2%	15.9%
Since SPO (July 2002)	178.3%	270.0%	62.1%
Since SPO (Jan 2006)	7.8%	15.8%	7.5%
2007	-16.5%	1.1%	-8.9%

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

The share's trading volume on the Prague Stock Exchange, where Erste Bank has been listed since October 2002, rose by 53% from the previous year to about 275,600 shares per day. The market capitalisation of Erste Bank at the end of 2007 was EUR 15.3 billion, compared to EUR 18.3 billion as of 31 December 2006.

DIVIDEND POLICY AND 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% compared to the year before.

Stable payout ratio

A dividend of EUR 0.75 per share will be proposed to the Annual General Meeting on 6 May 2008. The renewed increase in the dividend by 15% and the greater number of shares outstanding as a result of the employee share ownership and management stock option plans translated into a payout ratio of 20%, in line with historic levels.

Attractive, long-term growth targets

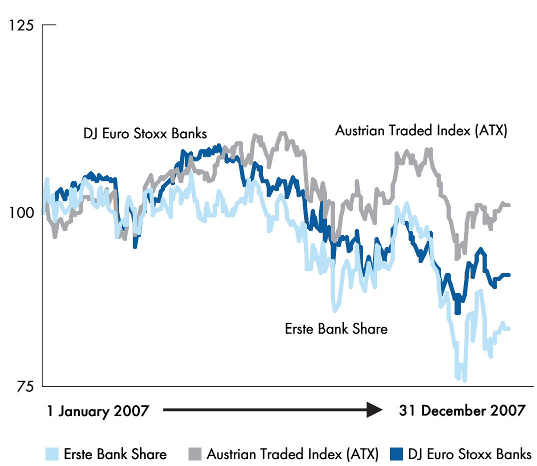
Erste Bank offers investors long-term, steady growth prospects. The medium-term targets to 2009 were updated with the presentation of the results for the third quarter of 2007. Based on significantly reduced cost increases, growth of at least 20% in net profit after minority interests is expected for 2008 and growth of at least 25% for 2009. The cost/income ratio is to be lowered to less than 55% by 2009. Return on equity, which contracted significantly in 2006 because of the increase in share capital, is to return to a level of 18% to 20% by 2009.

INVESTOR RELATIONS

The investor relations activities last year again centred on expanding the investor base and further raising awareness of the equity story of Erste Bank. Highlights of the year were the regular spring and autumn road shows and the fifth international Capital Markets Day. In June and November 2007 the management visited investors in the USA and Europe to report on the progress made with integration in the new markets and to emphasise the stable earnings trend at Erste Bank against the backdrop of the financial and credit crisis.

On 21 September 2007, Erste Bank held its fifth international Capital Markets Day in Bratislava. The more than 50 institutional investors and analysts present were thoroughly briefed by the management on the new holding company structure, the integration of BCR as well as risk and performance management. The management also reported on the developments and outlook in Erste Bank's markets. Strong interest was shown in the live webcast of the Capital Markets Day on the internet, with 1,121 downloads on the day of the event.

Performance of the Erste Bank Share and major indices; indexed



In 2007 the management together with the investor relations team of Erste Bank again participated in numerous banking and investor conferences – organised by international investment banks Merrill Lynch, Morgan Stanley, ING, UBS and Goldman Sachs – and met with large numbers of investors. Likewise, Erste Bank's strategy and positioning were presented to international investors at road shows held jointly by Wiener Börse, Erste Bank and other Austrian banks in London and New York. In total last year, the management and the IR team conducted 515 one-on-one or group meetings with local and international investors (2006: 516 meetings).

As well, two events last year were designed specifically for Erste Bank's retail shareholders. On 19 April 2007, for the eighth year in succession, Erste Bank hosted an Internet chat forum with the Chief Executive. Many current and prospective retail investors took this opportunity to communicate directly with CEO Andreas Treichl. On 27 September shareholders had the chance to speak to the retail shareholder representatives on the supervisory board.

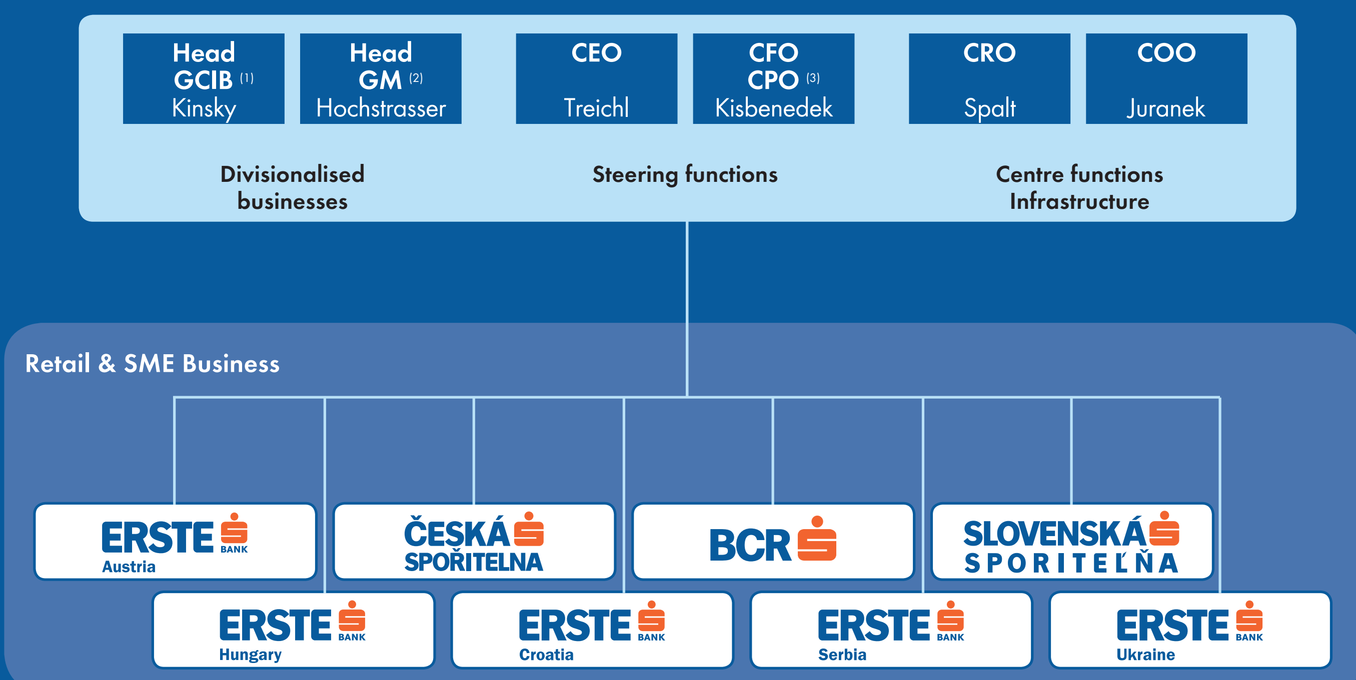
The brisk interest in the Erste Bank share was documented by numerous research reports on the group. A total of 24 investment banks published research on Erste Bank, including three which initiated coverage during the year.

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
_Kepler
_Merrill Lynch
_Morgan Stanley
_Raiffeisen Centrobank
_Redburn
_Sal. Oppenheim
_Société Générale
_UBS
_WestLB
_Wood

New governance structure

Clear separation of holding and local business duties



[1] GCIB: Group Corporate & Investment Banking
[2] GM: Global Markets/Treasury
[3] CPO: Chief Performance Officer

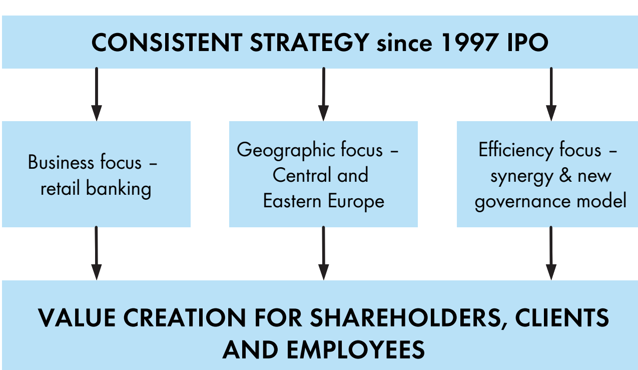
Governance that evolves with our expansion into CEE

Strategy

Another year of strategic consistency

In 2007 we continued to execute the strategy that has served us well over the past years and that was first devised nearly 10 years ago. In essence, we kept 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). 2007 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 activity; the geographic focus pillar defines Central and Eastern Europe as our home market and the efficiency focus pillar links these two, by setting out the vision of operating and expanding as efficiently as possible. In response to the rapid development of the group we added a new dimension to this third pillar 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 16.4 million customers in eight core markets and operate some 2,900 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 large 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 that are most suited to our clients' needs in less developed markets.

Geographic focus – Central and Eastern Europe

In the late 1990s 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 – Swift implementation of new governance model

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

We have continued with the setup of an operating holding company that started in late 2006 and actively prepared for the spin-off of the Austrian retail and SME business into a stand-alone subsidiary. The newly established Erste Holding will be responsible for the following three main functions:

- **Major steering functions of the group, such as strategy, performance management, strategic risk management, HR and talent development, etc.**

- **Operating businesses, in the form of the newly established Global Markets (GM) and Group Corporate and Investment Banking (GCIB) divisions.**

- **Provision and planning of infrastructure for Erste Holding as well as the local customer businesses.**

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

The new group structure is being implemented in two phases, primarily to mitigate any operational risks related to the migration of the IT systems. The first phase was successfully completed and led to the establishment of a factual holding company through the separation of group and Austrian activities within the existing legal entity "Erste Bank der oesterreichischen Sparkassen AG". The aim of the first phase to implement the target structure within the current legal framework was hence achieved. Specifically, the following measures were implemented:

- **Clear allocation of responsibilities to two board committees, i.e. holding committee and Austrian committee.**

_Allocation of units to the holding company and the prospective Erste Bank Austria as well as split of centre functions, such as controlling, communications, marketing, etc.

_Selection of new management teams for Erste Holding and Erste Bank Austria in order to ensure continuity.

_Implementation of a cooperation model between holding and local banks for all business lines and steering functions.

_Set up of an internal management reporting in line with the target structure.

The second phase is to be completed by mid 2008 and will lead to the legal separation of Erste Bank Austria from Erste Holding. As of this moment both entities will be independent companies in terms of all legal/regulatory aspects, IT systems and logistics.

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

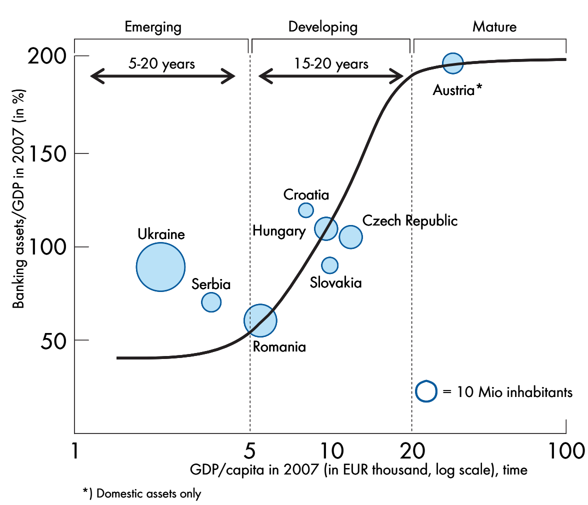
GROWTH DRIVERS

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 the 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 of 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.

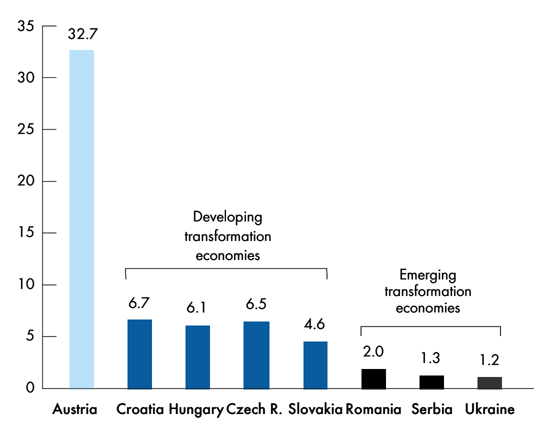
Mature markets are defined by GDP/capita in excess of EUR 20,000 and banking asset penetration north of 150%. These tend to offer only selected growth opportunities and typically only grow in line with GDP. We find it useful to operate in such markets to the extent that we can draw on experiences and 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 of the countries in which we operate, retail lending was non-existent just a couple of years ago. This was firstly because nominal and real interest rates were high, secondly because disposable incomes did not support household credit growth and thirdly because of a lack of a healthy competitive environment due to high levels of state ownership. All this has changed over the past few years: in developing transformation economies interest rates are in the process of convergence or have already converged, disposable incomes have risen strongly on the back of overall GDP growth, and most state banks have been sold to foreign strategic investors fostering product innovation and competition. 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 loan penetration measures, such 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 the fact 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.

Customer loans/capita in CEE (2007) in EUR thousand



Source: Local central banks, Eurostat.

The above 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: levels of private sector indebtedness in Romania, Serbia or Ukraine barely register 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.

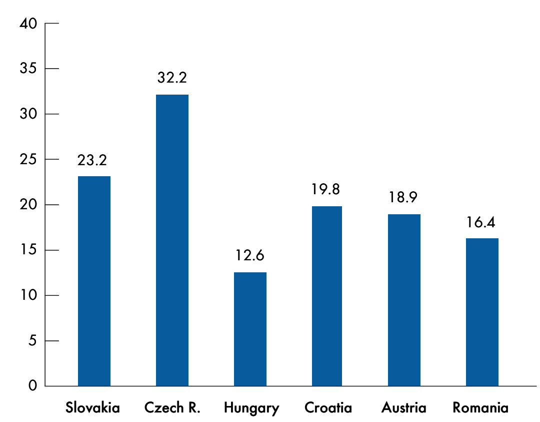
Within the overall loan growth trend, we will particularly benefit from our focus on the retail customer. In almost all our markets retail lending, particularly in the form of residential mortgages, has only just started. A case in point is mortgage penetration: it equals about 14% of GDP in our most developed markets, while it is still substantially lower in Romania, Serbia or the Ukraine. Even in Austria this measure only stands at 23%, leaving room for growth, while in the European Union it reached an estimated 50% in 2007.

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 22%. In addition, we can draw on our experience in Austria, where we are leaders in retail funds and hold the No. 2 spot overall with a market share of 18%, as detailed below. In life insurance, we are among the leaders in Austria, while we have established strong footholds in all other markets.

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. Almost all developing transformation economies, such as the Czech Republic, Slovakia, Hungary and Croatia have either surpassed or are closing in on this level. It is at this level that we believe basic consumption needs are satisfied and attention starts to shift towards providing for the future.

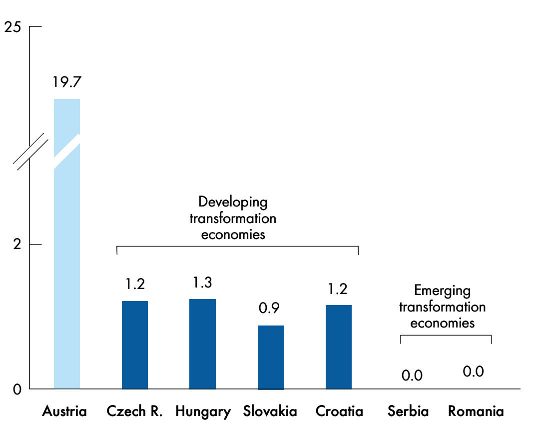
Erste Bank fund management market shares (2007) in %



Source: Erste-Sparinvest.

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 following exhibit, funds under management per capita in Austria equalled EUR 19,700 at the end of 2007, while the same figure stood at about EUR 1,300 and EUR 1,200 in Hungary and the Czech Republic, respectively. In Romania the fund management market is in the very early stages of development. While growth reached nearly 40% in 2007, funds under management still only stood at a lowly EUR 260 million or at only EUR 12 per capita. In Serbia the legal infrastructure for fund management was only established in 2007 and accordingly all the growth is still to come.

Funds under management/capita in CEE (2007)
in EUR thousand



Source: Local fund management associations, Eurostat.

The wealth management opportunity is best illustrated by a striking comparison. At the end of 2007 we managed assets of EUR 31 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 7.8 billion. While assets in Austria hardly grew in 2007, growth in the above-mentioned CEE markets registered 33%. 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 have been our preferred way of executing 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. Cases in point are our operations in Ukraine and Serbia. In the former we effectively entered the market through a greenfield operation, while in the latter we only established a regional, instead of a country-wide presence, reflecting our assessment of the market at the time. 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 the day after signing. A service agreement gives Erste Bank experts immediate access, so that they can familiarise themselves with day-to-day operations of the bank straight 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 growth accelerates to 27%

in EUR million	2007	2006	Change
BALANCE SHEET			
Total assets	200,519	181,703	10.4%
Loans and advances to credit institutions	14,937	16,616	(10.1%)
Loans and advances to customers	113,956	97,107	17.4%
Risk provisions for loans and advances	(3,296)	(3,133)	5.2%
Securities and other financial assets	44,214	42,497	4.0%
Other assets	30,708	28,616	7.3%
Total liabilities and equity	200,519	181,703	10.4%
Amounts owed to credit institutions	35,165	37,688	(6.7%)
Amounts owed to customers	100,116	90,849	10.2%
Debts evidenced by certificates, including subordinated capital	36,667	27,024	35.7%
Other liabilities, provisions	17,168	15,238	12.7%
Shareholders' equity	8,452	7,979	5.9%
Minority interests	2,951	2,925	0.9%
INCOME STATEMENT			
Net interest income	3,945.8	3,189.3	23.7%
Risk provisions for loans and advances	(454.7)	(439.1)	3.6%
Net commission income	1,857.9	1,445.9	28.5%
Net trading result	351.1	277.9	26.4%
General administrative expenses	(3,642.1)	(2,945.3)	23.7%
Operating result	2,547.7	2,003.6	27.2%
Pre-tax profit	1,927.6	1,522.2	26.6%
Net profit after minorities	1,174.7	932.2	26.0%

58.8% **Cost/income ratio** at new all-time low

Management Report

SUMMARY OF ECONOMIC PERFORMANCE OF ERSTE BANK GROUP IN 2007

General economic environment

The overall business environment last year both in the USA and the EU area was marked by a benign economic trend and an accompanying rise in commodity prices and interest rates.

Within this bigger picture, the second half of 2007 in particular was affected by the subprime crisis in the USA and an associated shortage of liquidity, which led to substantial price declines on almost all major international stock exchanges.

In Austria as well, the economic setting in 2007 was very positive. Gross domestic product is estimated to have grown by 3.3% in real terms over the year.

In the Central and Eastern European countries, economic expansion was considerably stronger still, with GDP growth of 5-9% in the most important markets where Erste Bank operates. Only Hungary saw a significant slowdown in growth, combined with sharply rising inflation.

In 2007 the European Central Bank continued its policy of small interest rate increases begun in December 2005, raising the benchmark rate to 4% by the middle of the year. However, the liquidity shortfall triggered by the subprime crisis led to a much greater rise in short-term market interest rates.

Erste Bank Group's performance

Banca Comercială Română (BCR) has been included in the consolidated financial statements since 12 October 2006; Erste Bank Ukraine, since 24 January 2007; Diners Club Adriatic in Croatia (DCA), since 2 April 2007; ABS Banka in Bosnia (acquired from Steiermärkische Sparkasse), since 3 April 2007. This change in the reporting base should be taken into account when interpreting the reported rates of change.

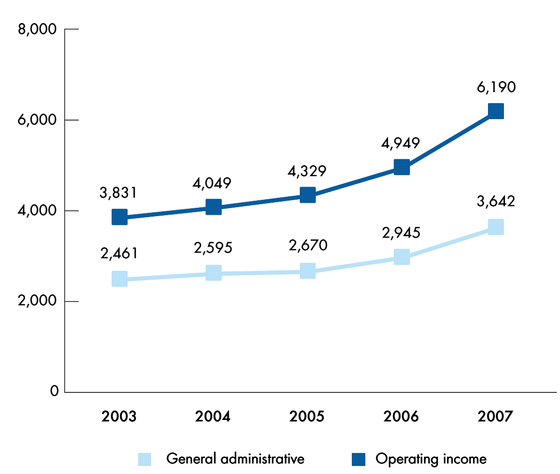
As the inclusion of BCR had a significant impact (while the effects of Erste Bank Ukraine, DCA and ABS Banka were still small), the rates of change in the amounts of income statement items are presented both with and without the effects of BCR's inclusion. As part of the pro-forma presentation excluding BCR, the prior year's net interest income was also adjusted to remove the investment income of approximately EUR 56.4 million on the proceeds of the capital increase conducted in January 2006 for the acquisition of BCR. This investment income was earned during the period ending with the transaction's closing in October 2006 and was thus absent in the 2007 reporting year. For balance sheet items, the comparatives are as at 31 December 2006 and include BCR.

Despite the international financial crisis, the Erste Bank Group again delivered record earnings in 2007 and thus met its demanding profit targets.

As was recently forecast, net profit after minority interests grew by 26.0% from EUR 932.2 million to EUR 1,174.7 million (or by 14.2% to EUR 984.6 million excluding BCR).

Operating result – representing operating income less general administrative expenses – climbed even more strongly, by 27.2% from EUR 2,003.6 million to EUR 2,547.7 million (excluding BCR: up 15.9% to EUR 2,151.0 million).

Operating income and operating expenses in EUR million



The increase in operating income of 25.1% from EUR 4,948.9 million to EUR 6,189.8 million (or 12.1% to EUR 5,264.4 million excluding BCR) was larger than the rise in general administrative expenses of 23.7% from EUR 2,945.3 million to EUR 3,642.1 million (excluding BCR: up 9.7% to EUR 3,113.3 million).

The cost/income ratio (general administrative expenses as a percentage of operating income) improved from the prior-year level of 59.5% to 58.8% (excluding BCR: 59.1%).

The charge to the income statement for risk provisions for loans and advances rose by a modest 3.6% from EUR 439.1 million to EUR 454.7 million (excluding BCR: up 11.3% to EUR 479.5 million).

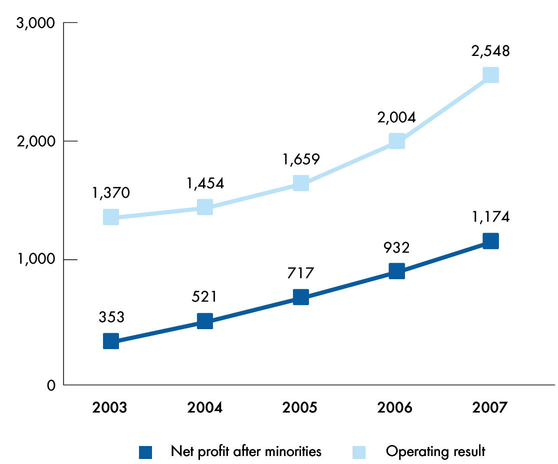
A noticeable deterioration from a deficit of EUR 42.3 million to a negative EUR 165.4 million (or from EUR -12.7 million to EUR -77.2 million excluding BCR) was registered in the overall balance of other operating result and the results from the various categories of financial assets, due especially to lower gains from and higher write-downs on securities and to additional amortisation of customer relationships for BCR and DCA.

Net profit after minority interests was EUR 1,927.6 million, up 26.6% from the prior-year level of EUR 1,522.2 million (excluding BCR: up 12.9% to EUR 1,594.4 million).

The average number of employees in the Erste Bank Group last year was 52,352 (prior year: 40,032, with BCR only included for the fourth quarter of 2006 – also see the Notes to the consolidated financial statements). Productivity per employee (pre-tax profit divided by the employee count) was almost unchanged at EUR 37,000 (prior year: EUR 38,000).

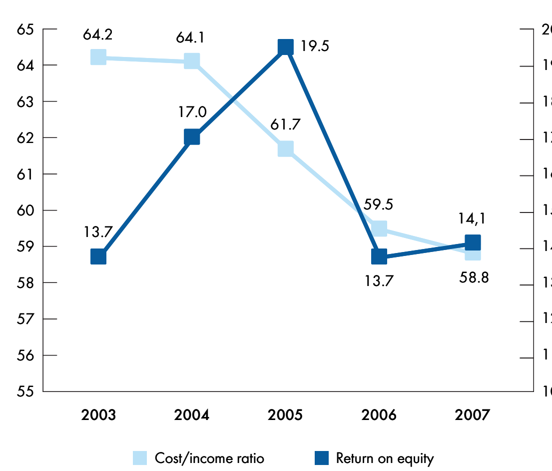
For the full year 2007 this resulted in a cash return on equity of 14.6% after taxes and minority interests (reported return on equity: 14.1%) compared to 13.8% (reported ROE: 13.7%) in 2006. "Cash" means before the amortisation of the capitalised intangible assets representing customer relationships and merchant relationships from acquisitions.

Operating result and net profit after minorities in EUR million



Cash earnings per share in 2007 rose to EUR 3.92 (reported EPS: EUR 3.76) compared with EUR 3.14 (reported: EUR 3.10) in the year before.

Key profitability ratios in %



Total assets grew by 10.4% from EUR 181.7 billion a year ago to EUR 200.5 billion. At 31 December 2007 the Erste Bank Group operated 993 bank branches in Austria (including those of the Haftungsverbund savings banks) and 1,915 in Central and Eastern Europe.

The **solvency ratio** (which from January 2007 is defined in accordance with Basel II) in respect of credit risk increased from 10.3% at the end of 2006 to 10.5% at 31 December 2007. The Tier 1 capital ratio with respect to credit risk rose from 6.6% to 7.0%.

Dividend

For the 2007 financial year the management board will propose to the annual general meeting on 6 May 2008 to raise the dividend from EUR 0.65 per share to EUR 0.75.

Outlook

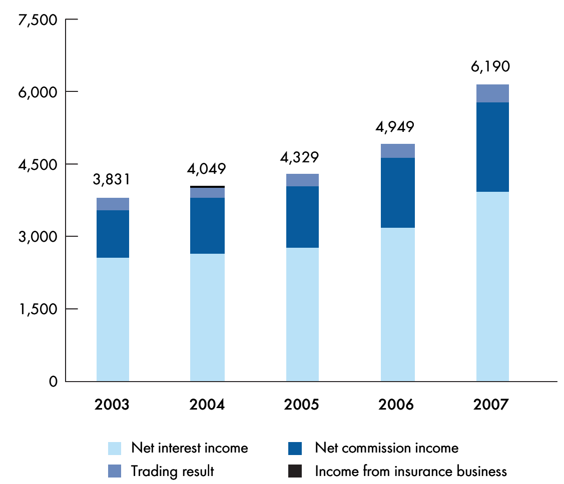
In the third quarter of 2008 Erste Bank AG plans to split off the **Austria business** (largely the domestic retail and corporate banking business including entities allocated to them) into a wholly-owned subsidiary. The remainder of Erste Bank AG will act as a holding company for the major banking subsidiaries and the group's infrastructure functions, as well as for operating-level entities Global Markets and Group Corporate and Investment Banking. This intra-group change in structure will have no effect on the financial results of the group as a whole.

The **Erste Bank Group is targeting** growth of at least 20% in net profit after minority interests for 2008 and at least 25% growth for 2009.

The **cost/income ratio** is to be reduced to less than 55% by 2009. **Return on equity** is to reach 18-20%, again in 2009.

ANALYSIS OF PERFORMANCE

Operating income structure and trend in EUR million

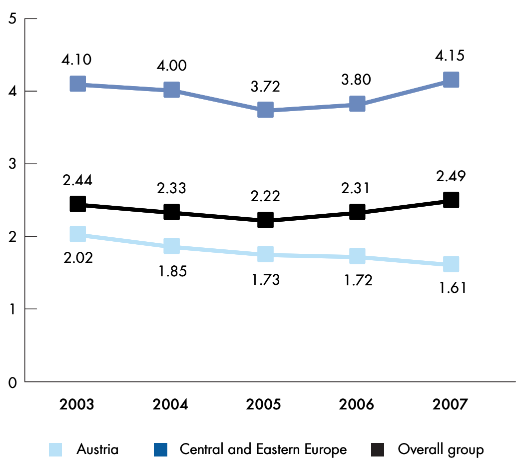


Net interest income

The strong credit demand at the Central and Eastern European subsidiaries combined with a rising trend in interest rates led to an increase of 23.7% in net interest income from EUR 3,189.3 million to EUR 3,945.8 million. Even when the inflating effect of the consolidation of BCR is excluded, the rise of 11.9% to EUR 3,358.8 million was highly satisfactory.

The net interest margin (net interest income as a percentage of average interest-earning assets) improved from 2.31% to 2.49%. This increase resulted mainly from the inclusion of BCR. The average spread in the Austrian business eased slightly to 1.6%. The average net interest margin in the CEE countries expanded from the prior year’s 3.8% to 4.1% in 2007.

Net interest margin in %



Net fee and commission income

Net fee and commission income was boosted in 2007 by 28.5% year-on-year, from EUR 1,445.9 million to EUR 1,857.9 million (excluding BCR: up 14.3% to EUR 1,601.4 million).

Superior growth rates were achieved especially in the credit business, up 64.0% (17.9% excluding BCR) and in payment services, up 34.7% (15.3% excluding BCR). Within payment services, this growth was led by the card business, up 48.4% (28.7% excluding BCR).

Of particular note was the very positive trend at the subsidiaries in Hungary and Croatia.

Net trading result

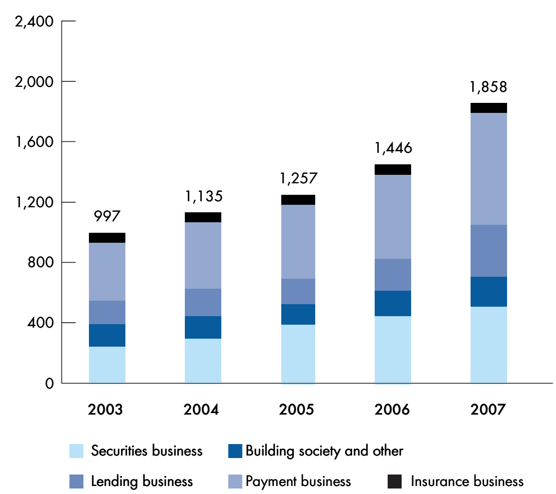
Despite difficult market conditions prevailing especially in the second half of 2007, net trading result was pushed up by 26.4% from EUR 277.9 million to EUR 351.1 million (excluding BCR: up 6.1% to EUR 274.6 million).

Income from insurance business

At EUR 35.0 million, income from insurance business was virtually constant compared to the year before (EUR 35.8 million).

Excluding BCR, this income item decreased by 8.8% to EUR 29.6 million. Factors that weighed on results in 2007 included expenses for securities write-downs and losses realised on disposal of securities.

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

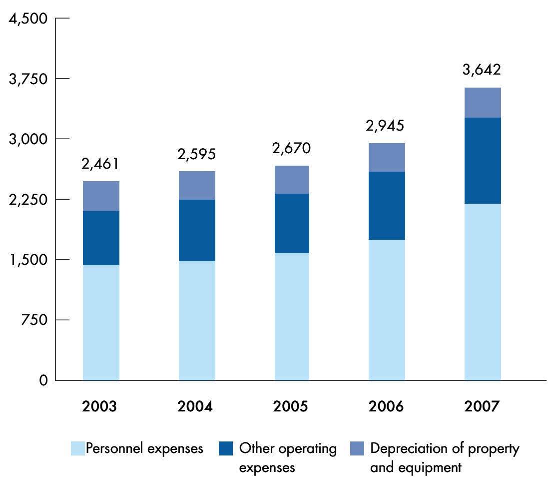


General administrative expenses

Overall, general administrative expenses rose by 23.7% from EUR 2,945.3 million to EUR 3,642.1 million. As one factor in the increase, initial outlays for future efficiency gains made themselves felt in additional expenses for group-level projects, particularly in other operating expenses. At BCR the restructuring and transformation costs in 2007 (approximately EUR 68.2 million) had a strong adverse impact on expenses.

Excluding BCR, the increase in general administrative expenses was 9.7%, raising this item to EUR 3,113.3 million. When the smaller subsidiaries newly added in 2007 – Erste Bank Ukraine, Diners Club Adriatic and ABS Banka – are also excluded, the rate of increase eases to 8.0%, with a total for 2007 of EUR 3,065.6 million.

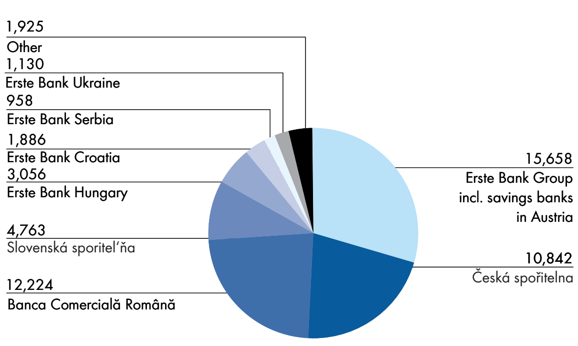
General administrative expenses, structure and trend, in EUR million



Personnel expenses went up 25.1% from EUR 1,750.5 million to EUR 2,189.3 million (excluding BCR: up 8.7% to EUR 1,832.4 million).

In Central and Eastern Europe this reflected the increase in performance-related compensation, severance pay (or provisioning for it) for outgoing staff at BCR and the expansion of the branch network in Romania and Ukraine.

Headcount at 31 December 2007



As a 31 December 2007 the Erste Bank Group employed a total of 52,442 people (31 December 2006: 50,164 employees).

Excluding Erste Bank Ukraine (first consolidated in January 2007), Diners Club Adriatic (consolidated since April 2007) and ABS Banka, the total number of employees rose only slightly in 2007. As part of the group-wide centralisation of IT activities, 378 employees were transferred to a group subsidiary from Česká spořitelna, Slovenská sporiteľňa and Erste Bank Croatia.

Other administrative expenses were up 26.2%, from EUR 848.2 million to EUR 1,070.5 million (excluding BCR: up 16.2% to EUR 950.1 million).

Within this rise, the Central and Eastern European increase of 36.0% to EUR 628.8 million (excluding BCR: up 17.6% to EUR 508.3 million) was significantly higher than in the rest of the group (up 14.5% to EUR 441.7 million).

Among the reasons for this were expenses associated with the conversion of the core banking system and the introduction of the euro in Slovakia, as well as the "Bank of First Choice" programme in the Czech Republic. Thus IT expenses, as the largest cost component, grew by 43.9% to EUR 244.4 million.

Depreciation of property and equipment increased by 10.3% from EUR 346.6 million to EUR 382.3 million. Excluding BCR, however, there was a small decrease of 1.0% to EUR 330.9 million. This is explained by lower investment activity in Austria in the past few years, where this expense item decreased by 8.7% in 2007 as a result.

Operating result

Operating income (net interest income, net fee and commission income, net trading result and income from insurance business) grew by 25.1% from EUR 4,948.9 million to EUR 6,189.8 million (excluding BCR: up 12.1% to EUR 5,264.4 million).

General administrative expenses were up 23.7% from EUR 2,945.3 million to EUR 3,642.1 million (excluding BCR: up 9.7% to EUR 3,113.4 million). The **cost/income ratio** therefore fell to 58.8% (prior year: 59.5%).

Operating result was thus expanded by 27.2% from EUR 2,003.6 million to EUR 2,547.7 million (excluding BCR: up 15.9% to EUR 2,151.0 million).

Risk provisions for loans and advances

Taking into account new allocations and releases, amounts written off and recoveries of amounts previously written off, risk provisions for loans and advances rose by only 3.6% from EUR 439.1 million to EUR 454.7 million. This was mainly due to income from revaluations and disposals of previously written-off loans of about EUR 39.6 million in BCR. Excluding BCR, the loan impairment allowance would have increased by 11.3% to EUR 479.5 million.

Increases in the Central and Eastern European region are explained primarily by the strong credit growth in the past several years. In International Business the risk trend remained favourable, leading to a net release of provisions. At the savings banks, the adoption of Basel II methodology resulted in the release of risk provisions for individually assessed loans and advances, while new allocations to portfolio provisions were small. This effect, however, was largely eliminated by the presence of minority interests and thus had little impact on group net profit.

The financial risks of Erste Bank and the goals and methods of risk management are discussed in the detailed risk report in the Notes.

Other operating result

The 17.6% deterioration in other operating result from a deficit of EUR 144.0 million in the year before to a negative EUR 169.3 million in 2007 resulted from the full year's amortisation expense for customer relationships at BCR and the first-time amortisation of the customer relationships and distribution network of Diners Club Adriatic. The total expense for this amortisation rose from EUR 18 million in 2006 to EUR 81.8 million in 2007 (including EUR 76.0 million at BCR). Excluding BCR, other operating result would have improved from a deficit of EUR 113.8 million to one of EUR 82.5 million, or by 27.5%.

Results from financial assets

Total results from all categories of financial assets fell sharply from the previous year's EUR 101.7 million to EUR 3.9 million.

Aside from lower realised gains on available-for-sale securities, this decline was attributable chiefly to required write-downs in the fair value portfolio, particularly on structured products and equities. These were partly related to the difficult market situation experienced especially in the latter half of 2007.

Pre-tax profit

Pre-tax profit rose from EUR 1,522.2 million in the previous year to EUR 1,927.6 million, an increase of 26.6% (excluding BCR: up 12.9% to EUR 1,594.4 million).

Tax situation

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

For 2007 this profit pool incurred no current tax expense for Austrian corporate income tax. This was attributable to loss carry-forwards, high tax-free income and the ability to deduct (especially foreign) investment income tax. The amounts reported in taxes on income thus relate primarily to foreign, income-based taxes, deferred tax assets and liabilities recognised under IFRS, as well as tax payable by smaller Austrian subsidiaries and various Haftungsverbund savings banks.

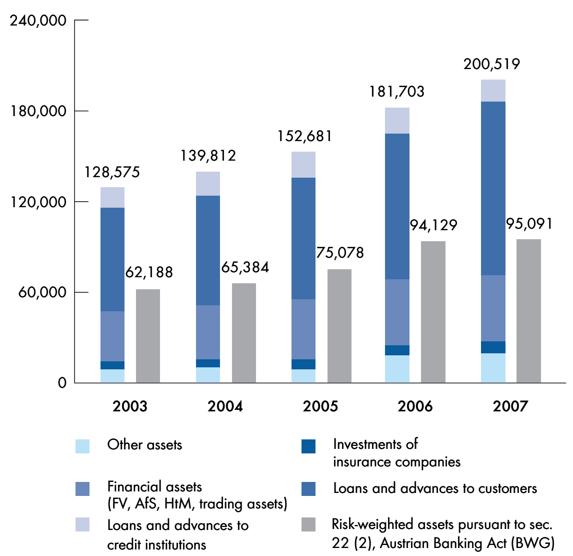
In 2007 the reported total of EUR 377.6 million of taxes on income (prior year: EUR 339.8 million) included a deferred tax expense of EUR 33.3 million (prior year: EUR 82.7 million).

The tax rate eased from 22.3% to 19.6%. The main underlying factor was the considerable increase in the profit contribution from BCR, which was taxed at the lower Romanian rate of 16%.

Balance sheet developments

Total assets of the Erste Bank Group rose by 10.4% from EUR 181.7 billion one year earlier to EUR 200.5 billion at the end of last year.

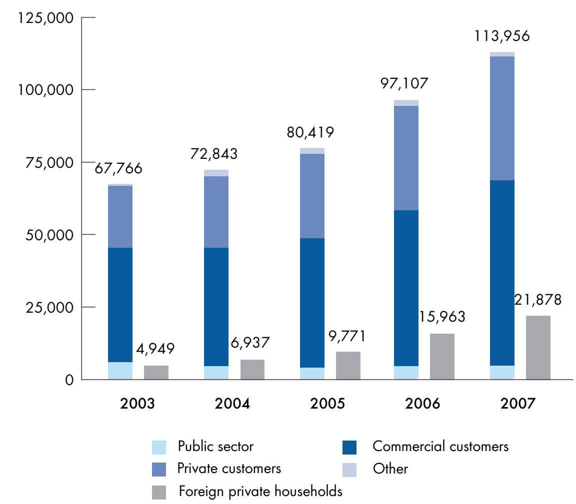
Balance sheet structure and trend/assets in EUR million



Loans and advances to customers grew by more than total assets, from EUR 97.1 billion to EUR 114.0 billion, an increase of 17.4%.

In the Austrian business, growth was 10.0%. Although far ahead of the Austrian market, this was a moderate rate compared to the increase of 31.7% in lending to customers in Central and Eastern Europe. Retail lending in particular showed a very positive trend in this region, with the loan book in this client segment up by 40.4% in CEE.

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



The **stock of risk provisions** increased by 5.2% in the year under review (reflecting new allocations, releases and utilisation of risk provisions), rising from EUR 3.1 billion to EUR 3.3 billion.

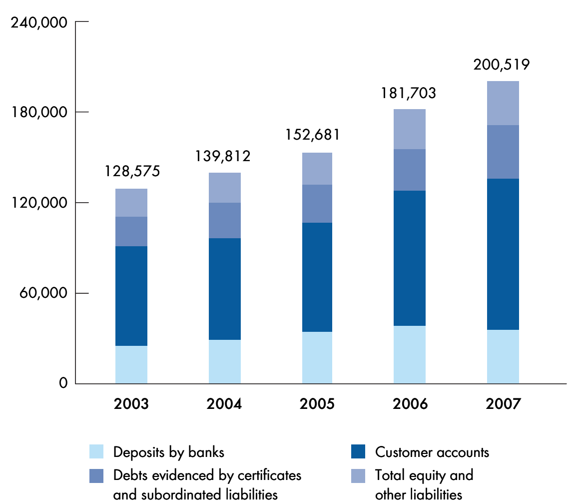
Trading assets increased from EUR 6.2 billion to EUR 6.6 billion, or by 7.2%.

As a result not least of the market situation in the second half of 2007, the **securities** held in the various categories of financial assets grew by less than total assets, increasing by 3.5% from EUR 36.3 billion to EUR 37.6 billion. Specifically, a rise in fixed-interest bonds was offset by a decrease in other securities.

Investments of insurance companies expanded from EUR 7.3 billion in the previous year to EUR 8.1 billion in 2007, an advance of 9.9%.

A decline of 10.1% from EUR 16.6 billion to EUR 14.9 billion was registered in **loans and advances to credit institutions.**

Balance sheet structure/liabilities and total equity in EUR million



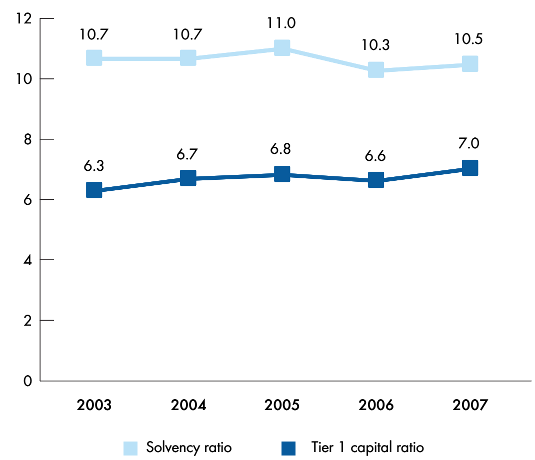
In liabilities, similar to the assets side, there was a reduction in **deposits by banks**, which fell by 6.7% from EUR 37.7 billion to EUR 35.2 billion.

A welcome trend was seen in **customer accounts**, which rose by 10.2% from EUR 90.8 billion in the prior year to EUR 100.1 billion.

A very strong expansion of 42.5% from EUR 21.8 billion to EUR 31.1 billion occurred in **debt securities in issue.** This resulted primarily from a switch among institutional clients from deposit products to securitised debt instruments and led to an increase in issuance of commercial paper and certificates of deposit.

Effective 1 January 2007 the approach to **capital adequacy calculation** under the Austrian Banking Act was changed to the **Basel II** framework. This meant that from 2007, for the entire credit risk in the retail business of Austria and the Czech Republic, the Internal Rating-Based (IRB) Approach has been applied to the calculation of qualifying capital; for the other Basel segments, the Foundation IRB Approach was used. The remaining group companies followed the Standard Approach. Market risks are covered by an internal model approved by the Austrian supervisory authority. Operational risk in 2007 was measured by the Basic Indicator Approach.

Solvency ratio and Tier 1 capital ratio in %



Despite the strong growth on the assets side of the balance sheet, **risk-weighted assets** – the basis for calculating credit risk – increased by only 1.02% from EUR 94.1 billion at the end of 2006 (calculated under Basel I) to EUR 95.1 billion at 31 December 2007 (calculated in accordance with Basel II).This is explained above all by the more favourable risk weights applied to retail assets under Basel II.

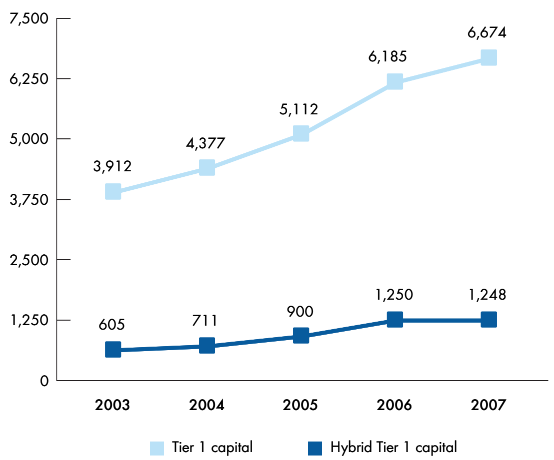
Information relating to the supplementary disclosure requirements of section 243a of the Austrian Commercial Code is presented in the Notes under the heading “Equity”.

At the end of 2007, total **qualifying capital** of the Erste Bank Group of credit institutions as determined under the Austrian Banking Act was EUR 11.1 billion. The coverage ratio, based on the legal minimum requirement at that date (EUR 8.8 billion), was 127% as in the previous year.

Tier 1 capital after the deduction of items specified by the Austrian Banking Act was EUR 6.7 billion.

The resulting **Tier 1 capital ratio** based on credit risk (Tier 1 capital after deductions under the Act, as a percentage of credit risk-weighted assets determined under section 22 (2) of the Act) was 7.0%, versus 6.6% at the end of 2006.

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



The **solvency ratio** in respect of credit risk (total regulatory capital less the non-credit risk capital requirements – especially settlement risks, operational risks and position risks in the trading book and foreign currency positions – as a percentage of risk-weighted assets as defined in section 22 (2) of the Austrian Banking Act) was 10.5% at 31 December 2007 (2006 year-end: 10.3%) and thus considerably surpassed the statutory minimum requirement of 8%.

Corporate social responsibility (CSR)

A detailed sustainability report is presented as a separate section of this annual report.

Growing contribution from Central and Eastern Europe

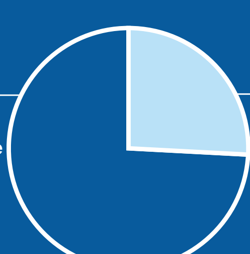
2006

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	46,634.7
CEE	24,146.7

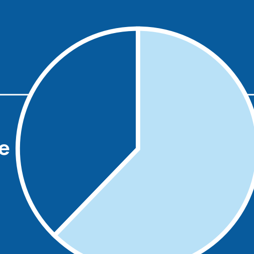
2007

in EUR million	
Pre-tax profit	
Austria	790.2
CEE	1,246.4
Net profit after minorities	
Austria	374.5
CEE	869.6
Average risk-weighted assets	
Austria	49,365.8
CEE	34,757.9

Net profit contribution by region
in %



Risk-weighted assets by region
in %



Segments

INTRODUCTORY REMARKS

This year the segment report includes comments on credit risk, but otherwise follows the same structure as in the previous years. 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. 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 not allocating 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.

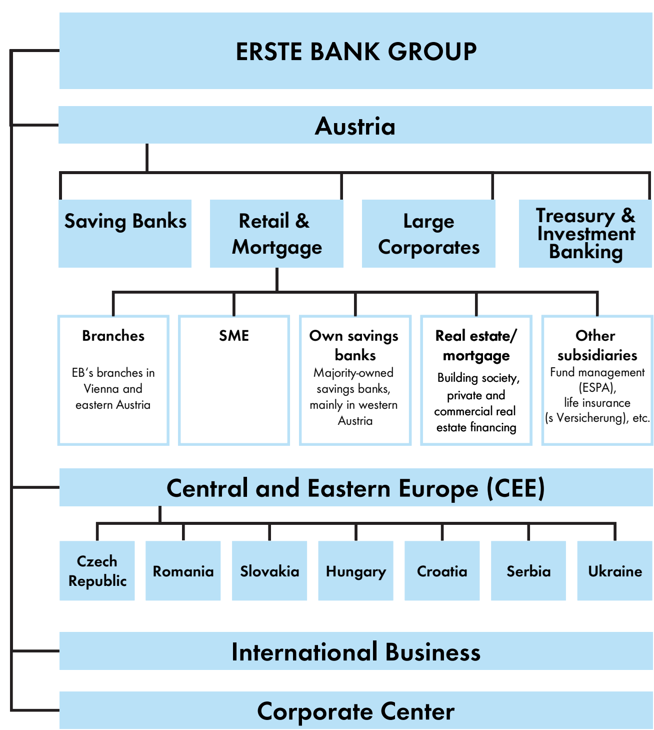
As a result of the new equity allocation, the net interest income line can accordingly show material differences compared to local reporting. The process of equity allocation is implemented in several stages during segment reporting, as set out below:

_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.
_Acquired goodwill (including goodwill allocated to customer relationships and distribution networks) and its P&L effects are allocated to the Corporate Center.

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

In 2007 Austria enjoyed another year of strong economic growth outperforming growth in the eurozone for the sixth year running. Real GDP rose by 3.3% in 2007, at the same fast pace as in the year before, while GDP/capita hit a record level of EUR 32,700. As with last year, domestic demand was the major contributor to growth, while export growth also had a beneficial effect. As a result, the normally very moderate unemployment rate declined again to close to 4%, remaining well below the Eurozone average.

Consumer price inflation rose in line with international commodity price developments from well below 2% in 2006 to close to 2%. 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, hiking its policy rate to 4% by mid year. In contrast short term market rates experienced a sharp rise from an average of 2.9% in 2006 to 4.4% in 2007 as a direct result of the full breakout of the US subprime crisis and ensuing liquidity shortages in the banking system.

Austria's current account balance improved further, once again helped by a very strong export performance. The trade balance rose to 2.1% of GDP, up from 1.4% in 2006. The general government balance remained in break-even territory as a result of increased tax revenues, the continuation of administrative reforms, the effects of the previous pension reforms and the declining unemployment rate, and thus remained well inside the limits set out by the Stability and Growth Pact.

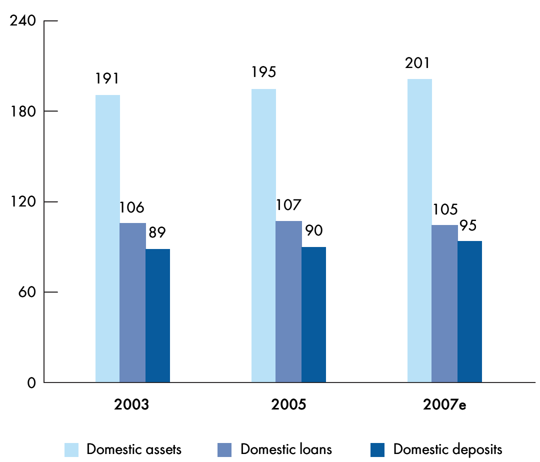
Key economic indicators – Austria	2004	2005	2006	2007e
Population (ave, million)	8.2	8.2	8.3	8.3
GDP (nominal, EUR billion)	236.1	245.3	257.9	272.4
GDP/capita (in EUR thousand)	28.9	29.8	31.1	32.7
Real GDP growth	2.3%	2.0%	3.3%	3.3%
Private consumption growth	1.8%	2.0%	2.1%	1.7%
Exports (share of GDP)	51.0%	53.4%	56.1%	57.9%
Imports (share of GDP)	46.7%	48.5%	50.4%	51.2%
Unemployment (Eurostat definition)	4.8%	5.2%	4.7%	4.3%
Consumer price inflation (ave)	2.0%	2.1%	1.7%	1.9%
Interest rate (1m interbank offer rate)	2.1%	2.1%	2.9%	4.1%
EUR FX rate (ave)	1.0	1.0	1.0	1.0
EUR FX rate (eop)	1.0	1.0	1.0	1.0
Current account balance (share of GDP)	2.4%	3.0%	3.3%	4.6%
General government balance (share of GDP)	-1.2%	-1.6%	-1.4%	-0.8%

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

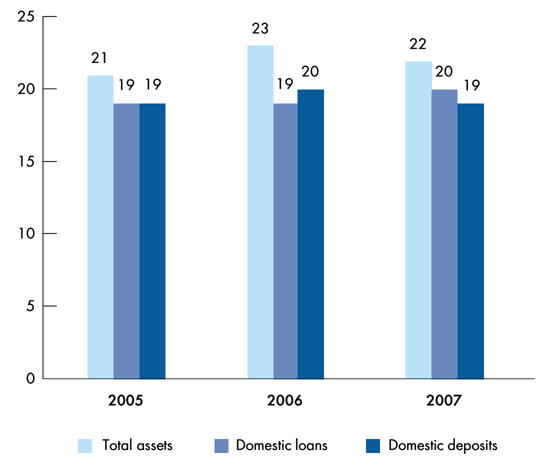


Source: Oesterreichische Nationalbank, Eurostat.

Overall market aggregates, ie those including foreign assets, reflect the Austrian banks' push into Central and Eastern Europe. In 2007 total banking assets/GDP stood at 330%, an impressive level even by international standards and up from 268% in 2003.

Growth in the Austrian market is, however, uneven. 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 its position as one of the leading Austrian banks. In 2007 total asset market share declined only marginally to 22%. 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 993 own and savings bank branches as well as electronic channels.

Savings Banks/Haftungsverbund

Business profile. In 2007 the Savings Banks segment encompassed 45 Austrian savings banks with 717 branches that were consolidated as a result of their membership in the Haftungsverbund (cross guarantee system) 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 October 2007 the approval of the first business combinations with the savings banks by the Austrian cartel authorities led to the establishment to the *Haftungsverbund Neu*, i.e. the new cross guarantee system. This framework enables Erste Bank and the participating savings bank to cooperate on such key operational issues as common product development; the development 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.

Business review

Strategy. The goal of the cooperation between Erste Bank and the savings banks is to work together on significant business tasks. This includes projects related to statutory requirements, cooperation in the development of management information and monitoring systems as well as organisational plans and information technology issues. This cooperation is facilitated without restrictions by the establishment of the *Haftungsverbund Neu* or the new cross guarantee system.

Highlights 2007

Customer growth and market share gains. Erste Bank in Austria and the savings banks succeeded in further increasing main client share in 2007. This was, among other things, due to the success of the uniform market presence and a joint advertising strategy. Erste Bank and the savings banks provided services to a total of 2.8 million customers, translating into an increase of around 2% since 2006.

Extended product range. In 2007, the product portfolio was adapted to people's needs in line with the life-cycle approach. This included, for example, support on the issues of inheritance, enduring power of attorney, long-term care, a support service for freelancers and companies, a special medical service, support for start-ups, hedging against risks and handing over companies.

Implementation of European standards. In 2007, the implementation of two European standards was a central issue. On the one hand, the implementation of the MiFID (Markets in Financial Instruments Directive) was initiated, and on the other hand work was carried out on the unification of payments in Europe (SEPA – Single European Payment Area), which is designed to make non-cash payments within Europe easier. The goals of MiFiD are a standardised market for financial services, uniform standards for providers of brokerage services, a further increase of competition and higher priority for investor protection. In close cooperation with s IT Solutions, the savings banks sector succeeded in fulfilling the statutory requirements in 2007.

Financial review

in EUR million	2007	2006
Pre-tax profit	320.4	246.1
Net profit after minority interests	20.0	15.8
Operating result	433.9	406.0
Cost/income ratio	65.6%	67.0%
Return on equity	8.8%	6.0%

Net profit after minority interests increased to EUR 20.0 million, a substantial increase of 26.8% over the year before. A significant rise in loans and advances to customers lifted net interest income from EUR 839.7 million to EUR 864.6 million (by 3.0%). Aided by factors such as the continuing benign cost trend (down by EUR 4.1 million or 0.5%), operating result improved from EUR 406.0 million to EUR 433.9 million (up 6.9%). The cost/income ratio improved from 67.0% to 65.6% in 2007.

A decline in other result reflected the net value changes from measurement of securities not held for trading and from companies accounted for at equity in 2007. Risk provisions decreased from last year's EUR 171.3 million to EUR 96.2 million (down 43.9%) as a result of Basel II-induced releases of risk provisions for customer segments that were not deemed to be non-performing. Return on equity increased to 8.8%. This was helped by a proportionately lower capital requirement as a consequence of the introduction of Basel II.

Credit risk

Credit exposure at the Haftungsverbund savings banks rose by EUR 3.6 billion or 9.4% to EUR 42.1 billion and accounted for a 19.9% share of the group's total exposure. Non-performing loans (NPLs) increased by 28.6% and made up 5.4% of the Haftungsverbund savings banks' total exposure. NPL coverage by risk provisions amounted to 54.5%.

Outlook 2008

2008 will be marked by the further development of the new cross guarantee system (*Haftungsverbund Neu*). This will comprise an estimated 48 savings banks, or 51 including the three savings banks in which Erste Bank has a majority stake (Salzburger Sparkasse, Tiroler Sparkasse and Sparkasse Hainburg Neusiedl). This signifies a new way ahead for the future with regard to the cooperation between the savings banks. It represents a business combination between legally independent savings banks, which now permits intensive cooperation within the savings bank sector. Customers will benefit from up to 100% protection for their savings as well as the provision of financial services throughout the country, also outside the urban centres. A joint marketing strategy with coordinated sales drives in the areas of saving, lending, retirement provision and asset management will support the sale of financial products and represents a management priority for 2008.

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 network of 143 branches and six commercial centres in Eastern Austria, including Vienna, which predominantly serves professionals, retail clients and SMEs. As noted above, it also includes three savings banks with 133 branches, 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 segment. 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, not-for-profit, subsidised and commercial housing finance, and property management and brokerage. The main operating units are building society s Bausparkasse – the 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 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 the expansion of its market share with the youth and students segment, 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 the retail area.

Highlights 2007

Successful retail business. Business in own branches was once again characterised by growth in core segments in 2007. The volume of savings deposits grew to by 4.2% to EUR 7.9 billion. Due to increasing money markets interest rates, the greatest demand was registered for short-term, fixed rate savings products with fixed interest rates, such as savings bonds, or card-based savings accounts. After the record year of 2006, net fee and commission income from the securities business increased by 5% to EUR 106 million in 2007 in spite of market turbulence in the second half of the year. The highlights of the year also included the establishment of a joint venture between Erste Bank and the Vienna Insurance Group. As part of joint campaigns, both banking and insurance products are to be offered directly to staff of corporate customers. Focal points will be the strengthening of cross-selling, proactive marketing, an improvement of service quality and last but not least the acquisition of new customers.

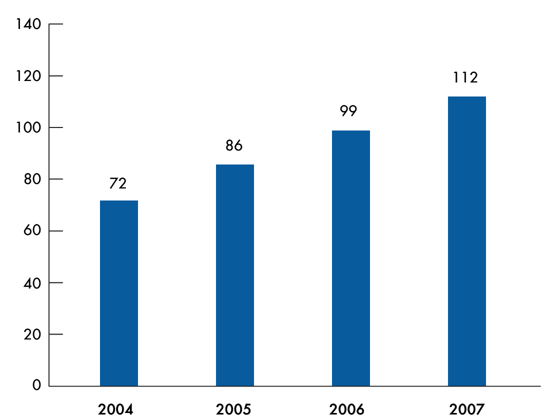
SME business on profitable growth path. Business with small and medium-sized companies developed exceedingly well in 2007. In comparison to the previous year, lending volume expanded by more than 15% to EUR 1.9 billion while the risk profile remained unchanged. Double-digit growth rates were achieved both in net interest income and commission income. Thanks to declining costs achieved despite this growth, the operating result increased by no less than 42% to EUR 39 million. Return on equity rose to a new high at 9.5%, while the cost-income ratio fell to a new low at just under 40%.

Increases for s Bausparkasse and in residential construction. The extraordinary growth figures of the previous years were topped once again in 2007 thanks to the successful cooperation with the savings banks. Large-volume building society loans rose by 22.7 % from 759 million to EUR 932 million, while the large-scale financing generated by s Bausparkasse for Erste Bank increased by 13.8% to EUR 2.2 billion. The lending volume for residential building finance by Erste Bank and s Bausparkasse (private residential building and large-scale residential construction) showed a very pleasing rise – from an already high base – of 7.7% to EUR 13.2bn in 2007. In the private residential building sector, the focus was on advice and service offers related to the renovation or redevelopment of apartment houses and apartments with the goal of increasing energy efficiency. In large-scale residential building, the ongoing diversification of the service offer towards the investment and payments businesses as well as other banking services such as hedging interest rate risk, organising information and special events, climate protection and local community financing continued. The international expansion was also continued with the beginning of the authorisation procedure for a building society in Romania.

Increased use of alternative distribution channels. 2007 saw a shift away from standardised services towards the use of alternative distribution channels of distribution. The use of *netbanking*, Erste Bank's online banking service in Austria, saw an increase from 99,000 to 112,000 private customers.

In the year 2007, there were a total of 11.5 million *netbanking* customer contacts compared to 10.8 million in the previous year. The number of transactions completed via *netbanking* increased by 400,000 or 10.2% to a total of 4.3 million. The proportion of private customer transactions carried out using *netbanking* rose from 30% in December 2006 to 36% in December 2007.

Number of active online banking users of Erste Bank in Austria, in thousands



Quelle: Erste Bank.

Strong growth in CEE investment fund assets. In 2007, Erste Sparinvest increased the total funds under management by 3.3% to EUR 38.2bn. It thus grew considerably faster than the overall market. The extension and standardisation of regional private banking services was a central theme in 2007, as was the planning of market entry into promising new markets such as Serbia or Ukraine. The acquisition of various asset management mandates from pension funds was also a very positive development. Overall, Erste Sparinvest received numerous awards for its performance. This was not least due to the use of a solution-orientated investment approach which is advantageous for customers as it avoids the overweighting of individual asset classes. This strategy has proved successful particularly in the light of the recent market turbulences.

Life insurance suffers from unfavourable market conditions. The fact that the interest rate environment was characterised by an increasingly flat yield curve had a major influence on Erste Bank's insurance business in 2007. As short-term investments attracted almost the same interest rates as single premium payments with long maturities, there was a clear fall in this previously popular type of investment. There was a positive development in the sales of state-sponsored pension plans. Marked increases were also achieved in casualty insurance.

Financial review

in EUR million	2007	2006
Pre-tax profit	198.4	178.3
Net profit after minority interests	143.1	123.4
Operating result	308.4	279.9
Cost/income ratio	66.9%	68.9%
Return on equity	18.8%	14.1%

The Retail and Mortgage segment continued to perform very well. Net profit after minority interests further improved by EUR 19.6 million (15.9%) from EUR 123.4 million to EUR 143.1 million, thanks especially to a favourable trend in operating result and a comparatively favourable risk situation. The expansion in the credit portfolio (particularly in mortgages) boosted net interest income by 2.9% from the previous year to EUR 552.8 million despite persistent heavy margin pressure on the deposits side. Net fee and commission income reached EUR 354.6 million, compared to EUR 335.1 million in the prior year. The increase of 5.8% was driven by the sustained brisk securities business.

There was a particularly positive trend in general administrative expenses: despite the intensified business expansion (for instance, in asset management) into the Central and Eastern European region, this item rose by only 0.3% (from EUR 621.0 million in the prior year to EUR 622.8 million in 2007). Operating result in this business segment improved by 10.2% from EUR 279.9 million to EUR 308.4 million. The cost/income ratio improved visibly compared to 2006, from 68.9% to 66.9%. Return on equity was 18.8%, up from 14.1% in the year before.

Credit risk

Exposure to private customers remained stable, up 0.7% to EUR 5.3 billion; the low risk category accounted for 87.7% of this volume; 55% of the volume was covered by collateral. Lending volume in the SME business rose by 2.3% to EUR 1,069 million, with the best risk categories making the strongest contribution to this growth. Collateral coverage improved from 49% in 2006 to 52.5% in 2007. In the Mortgage segment exposure increased by 13%. The share of exposure in the low risk category rose from 82% in the previous year to 86% in 2007. The share of substandard and non-performing loans in total exposure remained at a low 1.9%. The share of foreign exchange lending has decreased as a result of the strong euro and stood at 44% in the case of loans to households. Just under 90% of all FX loans was categorised as low risk.

Outlook 2008

In 2008, 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. Mortgages will also be a priority for 2008, with a focus on redevelopment and energy efficiency. In 2008 further emphasis will be placed on the advantages of building society savings for financial security and prosperity across all life stages. In order to ensure early customer retention and against the backdrop of a low churn rate in the Austrian banking market, 2008 will also see the expansion of the product offering for children, the young and students. In the SME business 2008 will feature renewed market development efforts and a refocusing on the importance of the medium-size corporate customer. In **fund management** private banking services will be further expanded after the successes in 2007.

Large Corporates

Business profile. The Large Corporate segment serves commercial customers in Central and Eastern Europe with regional service requirements or special product needs, such as M&A advisory. IMMORENT's real estate and leasing is also allocated to this segment. As a result of the restructuring of Erste Bank the Large Corporate segment will be merged into the newly established Group Corporate and Investment Banking division of the holding company.

Business review

Strategy. A group-wide approach to large corporate customers in Austria and in Central and Eastern Europe was the reason behind the establishment of the Group Large Corporates (GLC) business unit three years ago. In mid-2007 Erste Bank decided to take the original GLC concept to the next level by establishing the Group Corporate and Investment Banking (GCIB) as an operating unit of the new holding company. Innovations include the implementation of industry specialisation among account managers; operation under one single brand; a new "international customers" unit to acquire customers from outside Central and Eastern Europe; and the integration of the International Business – still reported separately in the current edition of the annual report – with a view to enhancing portfolio diversification.

Local market presence is key to the growth strategy of the GCIB division. The core focus is to seize the opportunities related to multi-national large corporate clients and real estate projects, institutional and public sector clients, and foster the cross-fertilisation with other business lines. This will be achieved through group-wide bundling of product know-how into competence centres and a widened product offer covering debt financing, equity capital markets, mergers and acquisitions, debt advisory, project financing, syndication and leasing. Being an integral part of the GCIB division, IMMORENT will focus on its strength in leasing, project development, construction services and investment products. In terms of geography the entry into Ukrainian and Serbian markets should open up further opportunities for the GCIB division.

Highlights 2007

Corporate bond issues. The large corporate business posted another strong year despite an increasingly competitive market environment. Business volume and contribution to group profit grew clearly. Erste Bank's success in debt capital markets was especially noteworthy. The highlights of the year were a bond issue for Wienerberger amounting to EUR 500 million in spring 2007 as well as an oversubscribed issue of hybrid bonds for Voestalpine totalling over EUR 1 billion. The latter transaction was executed despite the more challenging market conditions after the outbreak of the US subprime crisis over the summer.

Strong year for IPOs. In 2007 various IPO mandates were executed successfully giving Erste Bank's institutional and retail client base access to promising investment opportunities. The initial public offering of Croatian incumbent telecom operator T-HT was an outstanding success where Erste Bank was part of the syndicate and responsible for the heavily oversubscribed Croatian retail offering. In Austria, Erste Bank managed to defend its Number 1 position in SME capital markets transactions: three out of four transactions in this field were managed by Erste Bank in 2007. Despite the IPO market turning more difficult in late 2007, Erste Bank managed to generate some EUR 19 million fee income from this business line.

Corporate finance activities advance rapidly. The highlights of the year in the field of corporate finance included advisory on various disposals of companies and non-core assets, and the preparation of feasibility studies and advisory for international acquisitions. Several high profile mandates were won from clients in Austria as well as Central and Eastern Europe. Amongst others, services were provided to large local corporations (CEZ, Telefonika O2 Czech Republic, Slovak Telekom), the Czech and Slovak government or state organisations (Ministry of Justice Czech Republic, Ministry of Finance Slovak Republic, Regional Hospital Pardubice, City of Zlín), local medium size companies and private clients.

Successful property business. In 2007 there was a further distinct increase in new business volume and an all-time high for the overall business volume. This was particularly due to the activities of the new competence centres at group level. At the same time, the quality of the portfolio remained stable. In the commercial property sector, the financing of the project *Viertel Zwei* in Vienna with a volume of almost EUR 300 million succeeded in setting a new milestone in this market and showed that excellent projects can also be realised in saturated markets. The group's position in Central and Eastern Europe was consolidated appreciably. There was considerable expansion in Romania, where shopping centres in Bucharest and several regional cities were financed as well as a number of office blocks and logistics centres.

Exceptional results in IMMORENT. The highlight of the year for IMMORENT was the acquisition of a 36,000 m^2 site located at Vienna´s Südbahnhof (Southern Train Station) to build the new headquarters of Erste Group. The development project started this year, the first construction phase is scheduled to be completed by 2012. Besides this, IMMORENT commenced another project right in Vienna's city centre, office and residential buildings in Slovenia, office buildings in Prague, and logistics parks in Slovakia (Košice) and Croatia (Jastrebarsko).

Financial review

in EUR million	2007	2006
Pre-tax profit	157.4	115.4
Net profit after minority interests	122.2	83.0
Operating result	169.0	154.0
Cost/income ratio	39.6%	38.8%
Return on equity	16.9%	16.4%

In the Large Corporates segment in 2007, net profit after minority interests grew by 47.3% from EUR 83.0 million to EUR 122.2 million. Net interest income rose disproportionately strongly (by 20.3%) from EUR 147.6 million in 2006 to EUR 177.6 million last year. The key factor behind this trend was the expansion of the real estate leasing subsidiary, IMMORENT, both in Austria and the CEE region. As there were no major defaults or insolvencies, risk provisions declined compared to the previous year. The increase in other result stemmed primarily from gains on the revaluation or sale of investments in companies accounted for at equity. The expansion in the leasing segment in the CEE region contributed to, among other items, the increase in general administrative expenses of 13.7% from EUR 97.6 million to EUR 111.0 million. The cost/income ratio was 39.6% and return on equity went up from 16.4% to 16.9%. A factor which detracted from return on equity was the expected higher capital requirement under Basel II. Both the expansion in business volume and the change in method used to determine the capital requirement for credit risk (particularly in the areas of customer rating and higher weights for unused credit lines) led to a significant increase in risk-weighted assets and the resulting equity allocation.

Credit risk

Lending volume in the Large Corporates segment rose by 18% to EUR 18.2 billion in 2007. At the same time asset quality improved: the best risk category posted above-average growth of 22.7% and accounted for 85% of the portfolio. Lending volume in the real estate and project finance business rose by 39% to EUR 3.0 billion, accompanied by an improvement in asset quality. Collateral coverage declined only slightly from 78.4% in 2006 to 76.2% in 2007. Coverage of non-performing loans was sufficient. Unsecured loans within the "Management attention" category declined by 60%, while they were down by 24% in the substandard and non-performing categories. Collateral coverage of IMMORENT's EUR 5.5 billion loan portfolio – in line with the requirements of the leasing business – stood at 80%. A marginal fall in non-performing loans was offset by a slight rise in substandard loans; at the same time risk provisions remained at satisfactory levels.

Outlook 2008

In 2008 the GCIB division will focus on exploiting arising opportunities in emerging markets such as Romania and Ukraine, while continuing to generate stable income streams in the more mature and established markets such as Austria and the Czech Republic. The expected business growth is to be supported by all three main GCIB business lines: Real Estate & Leasing, an established business with continued high growth potential in CEE, will carefully monitor developments on international financial markets and build on its strengths – in-depth knowledge of the customer and the CEE region, a clear understanding of each individual development project and no exposure to derivative or secondary market real estate securities or ventures; in addition, efforts in infrastructure and public sector finance, a limited-risk business with very high growth potential, will be stepped up. Group Large Corporates and Investment Banking will focus on business development in Central and Eastern Europe. The International Business will also make solid profit contributions; further details regarding the International Business segment can be found from page 75 onwards.

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. As a result of the restructuring of Erste Bank the bulk of the Treasury and Investment Banking segment will become part of the newly established Global Markets Division.

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 2007

Establishment of the Global Markets Division. The restructuring of Erste Bank into a holding company and an Austrian subsidiary led to the integration of the Treasury and Investment Banking business into the holding as an operative division. The new structure will lead to a concentration in the assumption of risks and in trading activities into group-level trading books. At the same time, several trading locations are being retained to maintain regional know-how. The sales units will also continue to be organised regionally. The first to be affected by divisionalisation are Erste Bank in Austria, Česká spořitelna; Slovenská sporiteľňa, Erste Bank Hungary und Erste Bank Croatia as well as the investment banks in Hungary, Poland and Croatia. In a second stage, BCR, Erste Bank Ukraine and Erste Bank Serbia will be integrated. The goal of the new structure is to achieve economies of scale which should lead to a better market positioning.

Successful with structured products. 2007 was a successful year in the field of structured investment products, in spite of an increasingly volatile market environment. One of the focal points of the past year was the continued expansion of the product range in certificates: the number of products offered almost tripled compared to 2005. In order to increase the awareness of these products, international road shows, fairs and presentations in the most important financial centres in Germany and CEE were carried out alongside a number of sales training courses for Erste Bank and the savings banks. In addition, a new front office IT system for structured products was implemented, ensuring a supply of innovative and internally developed products for sales and giving trading the opportunity to further extend the level of own production. These initiatives should contribute to double-digit growth rates in this product segment in the coming year.

Diverse product innovations. A number of product innovations were again placed in the market in 2007. The new products included, for example, hybrid bonds from several well-known companies, and certificates for regional, central and east European share baskets. A further focus was on preparations for the placement of certificates at central and east European stock exchanges, where Erste Bank succeeded in becoming the first issuer to list a certificate at the Warsaw Stock Exchange. Similar steps are to be taken in the coming year in Budapest and possibly at other stock exchanges in the region.

Last but not least, the sales initiatives with tailor-made solutions for business customers were successfully continued and extended. The range of capital market products to hedge against risks in the fields of foreign currency, interest rates and liquidity was continuously expanded and adapted. The ESPA Alternative Multi-Strategy Fund managed by Capital Markets also developed extremely well in 2007 and succeeded in winning the award for the best fund of hedge funds in Austria.

Financial review

in EUR million	2007	2006
Pre-tax profit	114.0	158.9
Net profit after minority interests	89.1	123.7
Operating result	131.2	144.2
Cost/income ratio	46.9%	41.5%
Return on equity	31.6%	51.2%

Compared to 2006, net profit after minority interests fell from EUR 123.7 million to EUR 89.1 million (down EUR 34.6 million or 27.9%). This reflected the fact that, while the profit performance in Treasury's net interest income and net fee and commission income was exceedingly good, there was a – not unexpected – deterioration in the profit contribution from balance sheet management. In net interest income, the decline in asset liability management caused by the general market interest rate trend and the flat yield curve was only partially offset by exceptionally good results from the money market business. Net interest income thus retreated by EUR 13.7 million or 20.1% to EUR 54.5 million. Net fee and commission income rose by EUR 17.6 million or 19.5% from EUR 90.3 million to EUR 107.9 million, thanks primarily to the securities business – notably in structured products – and income from capital market transactions. The reduction in other result (to a deficit of EUR 17.2 million versus a surplus of EUR 14.8 million in the prior year) can be attributed above all to revaluation requirements in the fair value portfolio amid the general market performance and interest rate trend. Driven by the business expansion among other factors, general administrative expenses rose by 13.4% from EUR 102.3 million to EUR 116.0 million in the year under review. The cost/income ratio was 46.9% and return on equity decreased from 51.2% to 31.6%.

Outlook 2008

The business focus in 2008 will be on increasing the share of customer-driven compared to proprietary-driven revenues. The current ratio of approximately 45:55 in favour of proprietary-revenues should be turned around in the medium-term to 60:40 in favour of customer-driven business.

In order to achieve this, the cooperation between Erste Bank and the savings banks in the sale and marketing of structured investment products is to be further extended. Initiatives will be taken in training and product management, but also in after-sales support and marketing in order to consolidate this product segment as a core element of the product portfolio. In the coming year, institutional customers and large customers are primarily to be offered innovative structured products with a CEE focus in addition to the standard products.

In trading, investments will again be made in structuring capacities in 2008. The goal is to continue to provide sales with innovative products and at the same time to increase the degree of own production in selected asset classes. In addition, a concentration of forces should raise efficiency levels.

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, Erste Bank Serbia and Erste Bank Ukraine.

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 636 branches and 1,124 ATMs. By 2007 Česká spořitelna had issued more than 3.3 million bank cards, including more than 600,000 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 2007 the Czech economy continued to grow strongly. Real GDP growth, while slightly below last year's record level came in at an estimated 6.1%, supported by strong exports and a further acceleration of domestic demand; private consumption and investments contributed in equal measure. GDP/capita advanced briskly, reaching about EUR 12,400, among the highest levels in Central and Eastern Europe. Unemployment continued to decline to below 7% in 2007 thanks to the strong performance of the Czech economy.

Inflation remained at moderate levels and within the target range of the central bank, while the Czech Crown advanced on its appreciation trend against the Euro both in nominal and real terms. Monetary policy followed the steps of the European Central Bank, albeit at a faster pace: as a result the interest rate differential between the eurozone and the Czech Republic was cut in half to 50 basis points. At the end of 2007 the reference rate of the Czech National Bank stood at 3.5%.

The overall positive picture was rounded off by an improvement in the current account balance. This development was a direct result of a strong export performance which pushed the trade balance further into positive territory. The general government balance continued to oscillate around the negative 3%-mark, while gross government debt remained at a very manageable 27% of GDP.

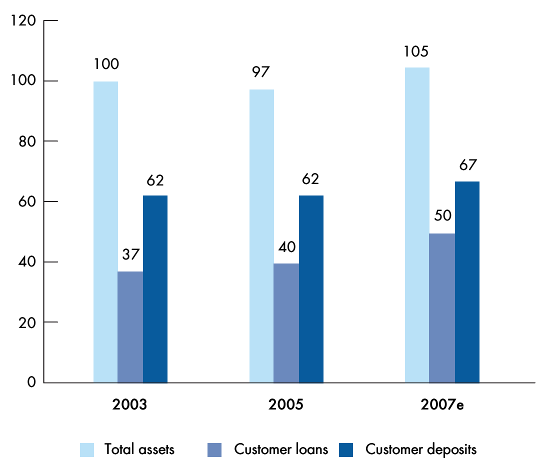
Key economic indicators – Czech Republic	2004	2005	2006	2007e
Population (ave, million)	10.3	10.3	10.3	10.3
GDP (nominal, EUR billion)	88.2	100.3	114.0	128.0
GDP/capita (in EUR thousand)	8.6	9.7	11.1	12.4
Real GDP growth	4.5%	6.4%	6.4%	6.1%
Private consumption (yoy growth)	2.9%	2.3%	5.4%	6.1%
Exports (share of GDP)	61.2%	62.5%	66.4%	69.3%
Imports (share of GDP)	62.1%	61.2%	65.1%	66.9%
Unemployment (Eurostat definition)	9.4%	8.9%	8.1%	6.6%
Consumer price inflation (ave)	2.8%	1.9%	2.5%	2.9%
Interest rate (1m interbank offer rate)	2.3%	2.0%	2.2%	3.0%
EUR FX rate (ave)	31.9	29.8	28.4	27.8
EUR FX rate (eop)	31.0	29.3	28.0	26.9
Current account balance (share of GDP)	-5.2%	-1.5%	-3.0%	-3.2%
General government balance (share of GDP)	-3.0%	-3.5%	-2.9%	-1.9%

Source: Erste Bank.

Market review

In 2007 much of the same factors drove the banking market as in the year before: continued strong economic growth and low, albeit rising interest rates. As a result banking market growth substantially outstripped economic growth and surpassed the 100%-to-GDP level for the first time since 2002. Sector growth was driven in equal measure by customer loans, which leapt from 44% of GDP a year ago to above 49% in 2007, as well as customer deposits which also moved ahead by five percentage-points. Within loans, retail loans acted as the growth engine. After a weaker performance in 2006 corporate loans enjoyed better growth, thanks to the buoyant economic environment.

Financial intermediation – Czech Republic (in % of GDP)

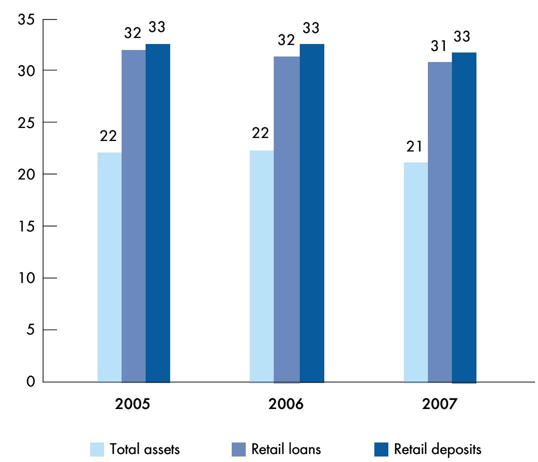


Source: Czech National Bank, Eurostat.

Retail loans enjoyed the sixth 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 20%; at the same time housing loans reached a level of nearly 14%. Both these figures are still substantially below the 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 2007.

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 reached 21% in 2007. 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 32%. Česká spořitelna was similarly successful in credit and debit cards, as well as current accounts.

Market shares – Czech Republic in %



Source: Czech National Bank, Česká spořitelna.

Business review

Strategy. In 2006 Česká spořitelna embarked on a new and ambitious strategic initiative called "First Choice Bank". It aims to cement Česká spořitelna's position as the most respected and the most dynamic bank in the country. The measures taken will yield benefits for customers and employees alike and should lead to a sustained increase in profitability.

Highlights 2007

Loan expansion continues. The buoyant Czech economy, increasing disposable incomes as well as rising, but still low interest rates continued to underpin strong growth of the loan book. Growth was particularly pertinent in the key retail segment, which continued to expand faster than corporate loans and accounted for 59% of the loan book. In total the loan book of Česká spořitelna grew to EUR 14.1 billion from EUR 10.8 billion a year ago, or up 27.0% in volume terms, while retail loans advanced from EUR 6.3 billion to EUR 8.3 billion. Within retail loans private mortgages grew the strongest at 39.2%. Corporate loans also expanded strongly in 2007, after a weak performance in the year before, driven by strong advances in all sub-segments: micro businesses, small and medium-sized companies and large corporates. Despite the strong loan growth, asset quality remained stable.

Focus on asset management. Česká spořitelna regards asset management as one of the key growth drivers of the future. As a result ČS substantially expanded its product offering with two innovations in 2007: firstly, ČS introduced the first real estate fund for retail investors in the Czech Republic. Secondly ČS launched life cycle funds to help investors maintain their living standard after their retirement. The main advantage of life cycle funds is active management of funds based on variable shares of money market instruments, bonds, commodities and stocks during the life of the fund.

First Choice Bank (FCB) initiative progresses well. The FCB programme was launched in July 2006 with the clear objective to affirm Česká spořitelna´s leading position in the overall banking market and to enhance its position in the key retail and SME market segments. Major milestones in 2007 included the introduction of a new personal account which enables clients to choose from various products and services based on their needs; foundation of a Debt Advisory Centre aiming to provide advisory services to over-indebted consumers; the launch of a special programme for companies engaging in the development of alternative energy sources; and, the implementation of the "cool branch" concept – clients of ČS can enjoy their stay at the branch, have a coffee, read newspapers and let their children play in the kids corner. The FCB programme is expected to finish in 2008.

Launch of new personal account. Promoting freedom of choice ČS introduced a new personal account, which allows client to assemble current account bundles consisting of products and services that are tailored to their individual needs and requirements. There are almost 30 different product configurations with further options for bundle modification. Since its launch the new personal account has been a huge success with nearly 500,000 customers opting for the new product by early 2008.

Strong demand for electronic banking, bank cards. In the area of electronic banking Česká spořitelna maintained its leadership position: the total number of active users of direct banking (especially internet banking) products SERVIS 24 and BUSINESS 24 reached 1.14 million which represents a 4% increase over 2006. The total number of transactions carried out through SERVIS 24 and BUSINESS 24 grew even faster at 40%. The number of active payment cards amounted to 3.3 million, up 7.9% on the previous year, thanks mainly to a 39% rise in issued credit cards, the total number of which exceeded 600,000 at the end of 2007.

Financial review

in EUR million	2007	2006
Pre-tax profit	524.3	451.7
Net profit after minority interests	407.3	324.4
Operating result	606.7	486.8
Cost/income ratio	52.2%	55.7%
Return on equity	49.2%	40.7%

Česká spořitelna´s contribution to the group's net profit after minority interests jumped from EUR 324.4 million in 2006 to EUR 407.3 million last year, an increase of EUR 82.9 million or 25.5%. Operating result also grew markedly by 24.6% from EUR 486.8 million to EUR 606.7 million. This increase was driven mainly by the strong rise in net interest income, which went up by 18.3% (EUR 129.2 million) from EUR 705.6 million to EUR 834.9 million. This advance in net interest income was due to growth of more than 20% in loans and advances to customers and rising market interest rates, as well as significantly improved profit contributions from the building society and pension fund activities. A 9.1% increase in net fee and commission income from EUR 324.9 million to EUR 354.5 million reflected the highly satisfactory performance in payment services and securities business. General administrative expenses went up from EUR 613.2 million to EUR 662.9, or by 8.1%, as a result of higher personnel costs (partly due to an increase in weekly working hours) and expenses related to the considerable business expansion. Other result fell to a deficit of EUR 11.7 million from a 2006 surplus of EUR 17.4 million due to the fact that revaluation gains in 2006 on securities not held for trading could not be duplicated in 2007. The cost/income ratio was 52.2% (improving from 55.7% in the prior year) and return on equity amounted to 49.2% (prior year: 40.7%).

Credit risk
Total credit risk exposure grew by 15.7% to EUR 31.2 billion in 2007, driven predominantly by growth in customer loans. The latter increased by 27.1% to EUR 15.7 billion. Adjusted for the repayment of the loan granted to the Czech Consolidation Agency, growth averaged 29.1%, significantly above the level of 21% in 2006. Mortgages were the main growth driver and made up 42.6% of the customer loan book, up from 39% a year ago. Asset quality ratios improved in 2007, driven by strong loan growth and sale of non performing loans: non-performing loans (NPL) improved to 0.6% of total credit risk exposure. Provision coverage reached 1.6% and 0.8% in relation to overall customer loans and credit risk exposure, respectively.

Outlook 2008
The economic environment is expected to stay very favourable in the Czech Republic, even though a slight slowdown in growth is expected due to the tax reform: cuts in social benefits in favour of lower corporate and personal income taxes should result in substantial benefits in the medium and long term. In addition, the First Choice Bank initiative will play an integral role in helping maintain Česká spořitelna´s leadership position in the retail segment and expand its position in SME and corporate banking. The most immediate effect will be faster net profit growth targeted at 15-20% in 2008, maintenance of a return on equity in excess of 20% and a reduction of the cost/income ratio to below 50%. 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. 2007 also saw the establishment of a pension fund subsidiary, with the building society becoming operational in early 2008. The bank has 4.0 million retail and corporate customers and operates a fast growing network of 562 branches.

Economic review
The performance of the Romania economy and the outlook for the future has taken centre stage in 2007. Rising external imbalances, especially the current account and trade deficits as well as the development of the local currency grabbed the attention of the analyst and economic observer community. Despite doubts about sustainability of the short-term growth path, there have been a number of positives in 2007: GDP growth averaged nearly 6% while GDP/capita moved ahead even faster to an estimated EUR 5,500 thanks also to the appreciation of the local currency (average rate). Gross fixed capital formation, or investments, was the fastest growing component of GDP, followed by private and public consumption. Foreign trade made a negative contribution. Thanks to robust economic development, unemployment, as measured by the Central Statistics Office, was also down to below 5%

The steady disinflation process over the last years stagnated in 2007 on the back of higher domestic food prices after a severe drought, increased world food prices and the depreciation of the local currency in the second half of the year. Nonetheless inflation remained at benign mid-single digit levels, a long way away from hyperinflationary levels just 5 years ago. The same is true for interest rates: the central bank lowered the monetary policy rate by 265 basis points during 2007 from 8.75% at the start of the year, only to be forced to raise them again in a bid to fight inflation: at the end of 2007 it stood at 7.5%. In early 2008 the central bank made further tightening moves, bringing up the monetary policy rate to 9%. Similar volatility was seen in the currency markets: after a violent appreciation against the euro in the first half of the year from 3.38 to 3.11, which was out of line with economic fundamentals, the trend reversed and the RON closed the year at 3.61 to the euro.

Demand pressures and early EU entry, which gave local companies less time to improve their competitiveness in the face of falling trade tariffs have contributed to a rapid increase in the trade deficit, with imports growing almost twice as fast as exports. This has added to a widening of the current account deficit. Importantly, however, much of the external deficit is financed by FDI flows, remittances from Romanians working abroad and the expansion of foreign indebtedness, which currently stands at a very manageable 44% of GDP. The much maligned budgetary situation remained in much better shape than its reputation suggests: at 2.7% and 20% respectively, neither the general government balance nor the gross government debt are at unsustainable levels; the latter was among the lowest in the entire European Union.

Key economic indicators – Romania	2004	2005	2006	2007e
Population (ave, million)	21.7	21.6	21.6	21.5
GDP (nominal, EUR billion)	60.8	79.5	97.2	118.3
GDP/capita (in EUR thousand)	2.8	3.7	4.5	5.5
Real GDP growth	8.4%	4.4%	7.7%	5.7%
Private consumption (yoy growth)	12.9%	9.1%	12.6%	9.6%
Exports (share of GDP)	31.1%	28.0%	26.6%	24.8%
Imports (share of GDP)	39.9%	37.8%	38.7%	42.8%
Unemployment (Eurostat definition)	6.3%	5.9%	5.2%	4.1%
Consumer price inflation (ave)	11.9%	9.0%	6.6%	4.8%
Interest rate (1m interbank offer rate)	20.5%	9.3%	8.7%	6.7%
EUR FX rate (ave)	4.1	3.6	3.5	3.3
EUR FX rate (eop)	4.0	3.7	3.4	3.6
Current account balance (share of GDP)	-8.4%	-8.7%	-10.3%	-14.3%
General government balance (share of GDP)	-1.1%	-0.8%	-1.6%	-2.4%

Source: Erste Bank.

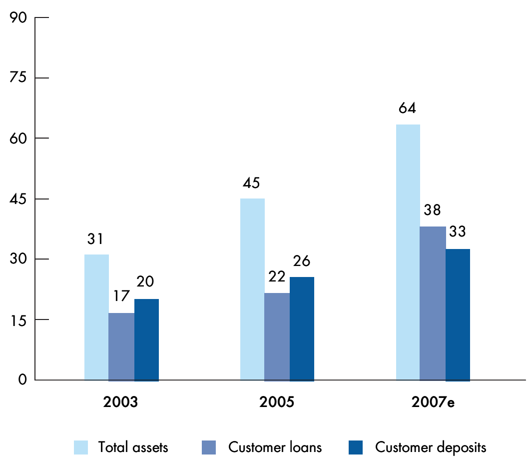
Market review

The Romanian banking market has developed very dynamically over the past years, but still ranks among the most under penetrated among Erste Bank's markets and hence offers excellent growth opportunities. Financial intermediation levels, while rising at a fast and almost linear pace, are quickly approaching levels of more developed CEE countries. The broadest measure, banking assets/GDP reached 64% in 2007, after standing at only 32% in 2003. Growth was even more pronounced in customer loans. They grew by more than 60% annually in the period under review, leading to a sharp rise in the loan/GDP ratio from 15% to 37% 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 4% of GDP in 2003, this ratio quadrupled to 17% by the end of 2007. Mortgage loans, which are major growth drivers in more developed CEE markets, remained at low levels of just below 4% of GDP.

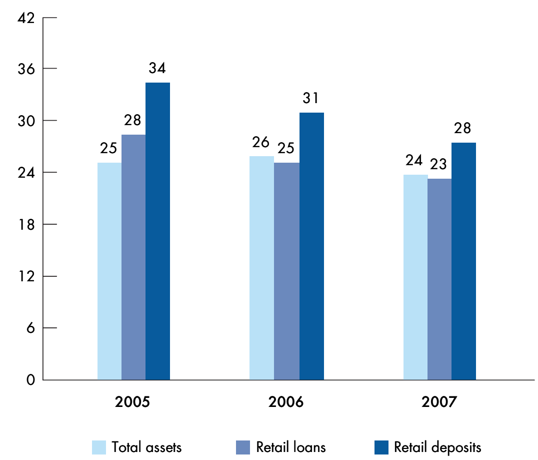
Structurally the market has some similarities with the Hungarian banking market. While the fact that it is dominated by foreign owners is not particularly noteworthy in a CEE context, the fact that there are only two dominant players is. BCR is the clear market leader, with BRD coming second, trailed by banks that engage in healthy, competitive behaviour but do not employ irrational pricing strategies.

Financial intermediation – Romania (in % of GDP)



Source: National Bank of Romania, Eurostat.

Market shares – Romania in %



Source: National Bank of Romania, BCR.

Another peculiarity of the Romanian market is the strong interest in foreign exchange lending. Despite 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 rose to 53% in 2007. Within this environment and against the backdrop of ongoing restructuring efforts, BCR suffered slight market share losses, but comfortably maintained its leadership position. Thus, the market share in terms of assets stood at 24% in December 2007 compared to 26% as at end-2006, while market shares in the key retail business stabilised in the 25-30% range.

Business review

Strategy. BCR's major goal is to maintain its leadership position in the Romanian Banking market while executing an ambitious transformation process that establishes the basis for improved efficiency and customer service. Strategic improvements in this respect included a complete reconstruction of the front office organisation along customer segmentation principles, the consolidation of back office and support activities, separation of risk management from business activities and process optimisation in all fields. In terms of business strategy, the clear focus is on the development of commercial and retail real estate funding, asset management and life insurance, SMEs lending and consultancy on accessing EU funds.

Highlights 2007

Optimisation of distribution channels, customer segmentation. The clear separation between corporate and retail distribution networks is another key achievement of 2007. Within the new structure a new customer segmentation was introduced for retail (individuals, micros, private banking) and corporate banking where group large corporates, large corporates, large municipalities and real estate are managed centrally, and SMEs and small municipalities are managed locally. Furthermore a new operating structure was implemented consisting of six regional centres coordinating the retail branch network, eight regional centres for corporate business and 52 commercial centres established to ensure proximity to SME clients. The new business structure will again foster higher customer focus and better understanding of customer needs.

Reorganisation of support functions and back office. During 2007 BCR went through an extensive transformation process aimed at establishing a more flexible and customer-oriented structure in line with Erste Bank's standards. The integration programme included the transfer of back-office activities from the branch network to the head office in Bucharest or to regional processing centres and the centralisation or outsourcing of support functions. This separation of front-office from back-office activities will lead to a higher level of customer focus among branch staff and consistent quality standards across the network. In addition, it will raise efficiency and facilitate improved bank wide risk management.

Rebranding and new product offensive. On 3 September 2007, as part of an extensive image campaign, BCR launched the new logo of the bank, which is built on the visual identity of Erste Bank Group. The message accompanying the new logo "We think alike" emphasizes BCR's desire to listen to clients' requirements and understand their needs. At the same time, BCR substantially upgraded its products and services in the field of retail mortgage lending – still a very underdeveloped market segment; current accounts – with a view to shifting client behaviour from cash to non-cash transactions; as well as customer interaction both online and in the branch network, through opening a new contact centre and launching a new, multi-functional web portal.

Adoption of the group risk management model. One of the key achievements of 2007 was the implementation of Erste Group's overall risk management concept: risk management functions have been separated from market functions on all levels and report to the chief risk officer of BCR. Retail risk evaluation uses a scoring analysis based on an automated IT approval system that allows quick decision-making. Group risk instruments were also adopted in the corporate business. In addition, internal procedures for bank limits and monitoring were aligned with the group methodology. Applications for monitoring the market and operational risks have also been implemented. In order to monitor liquidity risk BCR's asset/liability management procedures and funding strategy was brought in line with group strategy. A transfer price system based on opportunity costs that allows determination of pricing policy and authority limits at the level of business lines was also set up.

Balanced loan book grows in line with market. Despite the execution of far-reaching transformational measures, BCR continued to achieve growth rates in line with market growth. Retail lending drove the expansion of the overall loan portfolio, which stood at EUR 10.1 billion. Retail loans grew at a high 72%, while housing loans increased by more than 76%. Corporate lending showed a relatively slower growth pace at 26%, thanks to demand for investment loans for SMEs and real estate financing for developers. The share of FX loans – almost exclusively in euro – rose to 49% and was funded in large part by local FX deposits. Overall the structure of the loan book remained well balanced, with asset quality benefiting from a cautious and prudent lending approach that should also have a positive impact in 2008.

Full achievement of financial targets. At the time of acquisition Erste Bank set ambitious targets for its Romanian bank. An underlying 2006 – 2009 net profit CAGR of above 40% for the local group entity was set, while return on equity and return on investment were projected to exceed 35% and 10%, respectively. The cost/income ratio should reach 40% by 2009. In 2007, BCR posted growth, adjusted for restructuring and integration costs as well as extraordinary risk provisions, of 42%, and accordingly is on track to achieve these targets.

Financial review*

in EUR million	2007	2006
Pre-tax profit	391.0	67.9
Net profit after minority interests	218.2	34.6
Operating result	377.9	87.7
Cost/income ratio	58.3%	55.1%
Return on equity	45.7%	34.6%

*) No comparable segment contribution data available for 2006.

As BCR has only been included in the group's accounts since 12 October 2006, no comparative data for the full year 2006 is available for the segmental analysis. Net profit after minority interests in the full year 2007, which was defined by the transformation projects, reached EUR 218.2 million. Operating result was EUR 377.9 million. This translated into a cost/income ratio of 58.3% and return on equity of 45.7%. Risk provisions for loans and advances were greatly enhanced by the sale of assets that had been written off and by unexpected recoveries on amounts previously written off. A positive effect also came from EUR 74.0 million in partial releases of provisions made at group level on initial consolidation. The restructuring and transformation costs of EUR 68.2 million included in the net profit figure (representing in particular termination benefits, marketing, consulting and training) distorted the result. All these measures will contribute greatly to the achievement of the profit target – a compound annual growth rate to 2009 of more than 40% in net profit after minority interests (in euro terms on a local basis and before restructuring costs). The valuation of customer relationships required by IFRS 3 (using purchase price accounting) with the associated amortisation expense of EUR 76.1 million (recognised in other result) is allocated to Corporate Center, primarily to ensure comparability with all other segments.

Credit risk

Total credit exposure increased by 26% in 2007 and reached EUR 15.2 billion. At the same time, loans and advances to customers rose by 41% to EUR 10.9 billion, driven by above average growth in loans to private individuals. Despite an improved growth trend in mortgage loans and secured consumer loans, unsecured consumer lending accounted for 58% of loans to private individuals. Overall retail loans gained in importance, representing 53% of the loan book. Non-performing loans (NPL) in the retail business rose from 1.5% in 2006 to 3% in 2007, mainly due to ending insurance of unsecured consumer loans in 2007 and the client re-segmentation of micro customers. In contrast, NPLs for corporate clients, mortgages and secured consumer lending remained stable in 2007. At 176% NPL coverage was adequate.

Outlook 2008

2008 will be defined by the conclusion of the transformation and integration programme. In financial terms the bank will work towards achieving the published targets of average growth (2006-2009 CAGR with EUR 250 million as the basis) of adjusted IFRS net profit of BCR Group of above 40%, a cost/income ratio of below 40% and a return on investment of at least 10%.

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 273 branches and 585 ATMs. It is the market leader in retail as well as total deposits, as well as in retail and total loans. Its asset management and life insurance subsidiaries also hold prominent positions in their respective markets.

Economic review

The Slovakian economy powered ahead by an impressive 10.3%, outpacing the exceptional growth of 8.574% recorded in 2006, reflecting high output from export oriented automotive and electronics industries. The economic boom was also driven by strong household consumption and investment activity. GDP/capita rose to a new all-time-high of EUR 10,100. Unemployment, which stood at nearly 20% in 2004 moved into the single digits for the first time since the start of the transformation, while disposable incomes rose dynamically. Overall, the Slovak economy benefited from strong foreign direct investment inflows.

Key economic indicators – Slovakia	2004	2005	2006	2007e
Population (ave, million)	5.4	5.4	5.4	5.4
GDP (nominal, EUR billion)	34.0	38.5	44.6	54.8
GDP/capita (in EUR thousand)	6.3	7.1	8.3	10.1
Real GDP growth	5.2%	6.6%	8.5%	10.3%
Private consumption (yoy growth)	4.2%	6.5%	5.9%	7.1%
Exports (share of GDP)	65.4%	66.7%	74.3%	76.6%
Imports (share of GDP)	69.1%	71.6%	78.8%	77.7%
Unemployment (Eurostat definition)	14.3%	11.6%	10.4%	8.4%
Consumer price inflation (ave)	7.5%	2.7%	4.5%	2.8%
Interest rate (1m interbank offer rate)	4.8%	3.0%	4.1%	4.3%
EUR FX rate (ave)	40.0	38.6	37.2	33.8
EUR FX rate (eop)	38.8	37.8	34.6	33.6
Current account balance (share of GDP)	-3.6%	-8.4%	-7.2%	-4.8%
General government balance (share of GDP)	-2.4%	-2.8%	-3.7%	-2.5%

Source: Erste Bank.

Following a spike to above 4% in 2006, inflation retraced in 2007 as a result of a tight monetary policy employed by the central bank – the reference rate peaked in March 2007 at 4.75%. Since then the central bank shifted into easing mode, lowering interest rates to 4.25% ahead of euro adoption in 2009. Despite lower interest rates, the currency appreciated strongly during the course of the year.

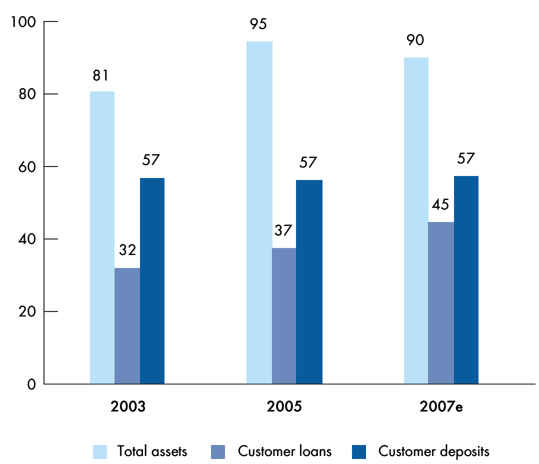
In 2007 the general government deficit continued to narrow to an estimated 2.9% of GDP. At the same time, the current account deficit also contracted sharply, on the back of a very strong export performance. Overall, Slovakia fulfilled all criteria of the Stability and Growth Pact – general government balance, gross government debt and inflation – one year ahead of schedule, and hence should be well prepared for entering the euro zone on time.

Market review

The banking sector continued to enjoy rapid growth on the back of a booming economy in 2007. Asset penetration rose dynamically year-on-year thanks to double-digit loan growth. Deposits also maintained their high share of GDP. As in 2006, 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 15% of GDP, while housing loan penetration was just below 9%, pointing towards further catch-up potential in the future.

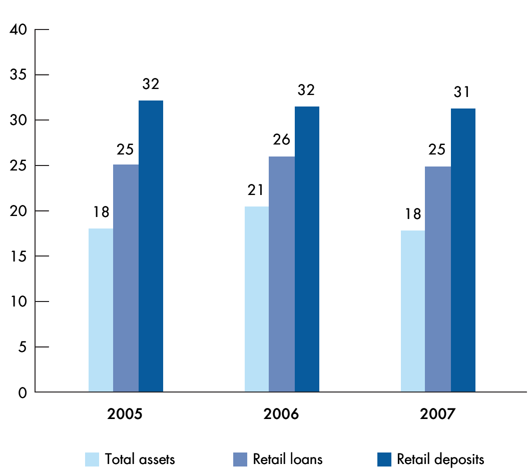
In the wake of the overall positive environment Slovenská sporiteľňa managed to further strengthen its leading position in most segments. Total asset market share stood at about 18%, down significantly on the previous year, as a result of maturing government and hence a smaller securities portfolio. The bank also outperformed its competitors in housing loans thanks to a very competitive product offering. Strong gains were also posted in corporate loans. On the deposit side, the bank maintained its leadership position despite falling interest rates thanks to innovative products, such as structure deposits. Contrary to the past, investment fund business also expanded thanks to implementation of a group-wide wealth management initiative.

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 strategic focus has stayed very stable over the past years. The main goal is to maintain the leadership position in deposits and loans. Apart from focusing on the core retail market, the small and medium enterprise business is targeted as 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 the fields of project and real estate financing.

Highlights 2007

Loan growth moderates. After two years of exceptional volume growth averaging 40%, customer loans were up 23% in 2007 from EUR 3.6 billion to EUR 4.5 billion. Surging housing loans remained the driver within retail loans. As the major part of the loan book is collateralised by real estate and the housing market is by no means overheated, the asset quality of loan portfolio remained very good. Going forward, rising real income of households and penetration ratios well below the EU average and even slightly below those registered in the neighbouring CEE countries bode well for the growth outlook.

Non-cash transactions on the rise. Transaction business has always belonged to the most successful areas of Slovenská sporiteľňa. Already in 2007, 95% of clients were performing non-cash transactions, utilising one of the largest ATM networks in the country, and making card payments in shops. Clients understood the bank's strategy to structure the fee policy in favour of non-cash transactions. Household utilisation of current accounts also progressed, with 2% growth in the number of accounts from 1.08 million to 1.11 million, and 21% growth in the average current account deposit; aggregate sight deposits stood at SKK 40 billion. The majority of the rising number of transactions was carried out electronically; only 10% were done at the bank's branches. In addition, a substantial increase in the number of transactions was recorded in electronic banking and at POS terminals. The volume of these transactions rose by 23% from SKK 8.8 billion to SKK 10.9 billion. In 2007, the bank also launched several product innovations that promote non-cash transactions, such as a picture card programme that allows clients to choose their own card design and should help SLSP defend its leadership position in the cards market.

New core banking system. Slovakia is set to adopt the common European currency by 2009. As part of the changeover preparations SLSP has decided to migrate to the target core banking system of Erste Bank, covering both back-end and front-end systems and related process optimisation. In doing so, the bank saves the cost of adapting its legacy systems to the euro and changing to the new core banking system shortly thereafter. At the same time the bank will also move into new headquarters, thereby consolidating multiple office locations in Bratislava. Despite the burden these measures put on management and employees, SLSP delivered an excellent operating performance in 2007. Once completed, these projects will form the basis for long-term business growth.

Focus on SME, growing corporate business. The SME business remained a key growth driver for Slovenská sporiteľňa, in addition to the key retail market. The overall corporate business also performed well thanks to a supportive macroeconomic environment and a change in perception of SLSP: it is increasingly seen as a bank that is well equipped to cater for the corporate customer. In this respect it has closed the gap with its competitors. Slovenská sporiteľňa took advantage of the arising opportunities thanks to its wide network of branches and its ability to offer relevant products and services to small and medium entrepreneurs in particular. Cross- and up-selling of higher margin products to customers who have initially taken out only a loan, remained a key feature, as was increased success in winning strategic transactions business.

Financial review

in EUR million	2007	2006
Pre-tax profit	129.1	134.3
Net profit after minority interests	117.6	107.7
Operating result	194.4	158.1
Cost/income ratio	53.4%	53.9%
Return on equity	38.1%	44.8%

Net profit after minority interests at Slovenská sporiteľňa rose by 9.2% compared to 2006, from EUR 107.7 million to EUR 117.6 million. Net interest income improved by 25.5% (EUR 61.0 million) from EUR 239.5 million to EUR 300.5 million. This was attributable in part to a significant increase in loans and advances to customers. Net fee and commission income (EUR 95.8 million versus EUR 82.8 million in 2006) rose on the strong credit demand and higher transaction volume in payment services. General administrative expenses rose by EUR 37.7 million or 20.4% from EUR 185.0 million to a new total of EUR 222.8 million. Contributing to this were both increased expenses for IT projects (the core banking system and introduction of the euro) and the trend in the exchange rate (up 9.0%). Operating result thus improved by almost 23% from EUR 158.1 million to EUR 194.4 million (or by 11.9% excluding the currency effect). The significant increase in risk provisions from EUR 16.5 million in 2006 to EUR 37.5 million resulted partly from the pronounced credit growth in the last several quarters, but also from releases of provisions in the prior year (EUR 9.5 million). The fall in other result from a 2006 deficit of EUR 7.3 million to a negative balance of EUR 27.8 million in 2007 was related primarily to the exceptional impairment of software triggered by the implementation of a new core banking system and introduction of the euro, as well as revaluations on securities not held for trading. The decline in income tax expense is based on the release of a provision from 2006 that was no longer required as a result of a change in legislation. Return on equity was 38.1% and the cost/income ratio improved from 53.9% to 53.4%.

Credit risk

Driven by strong economic growth total credit exposure of Slovenská sporiteľňa grew to EUR 9.6 billion. A key contribution to this growth came from retail lending, which in turn was fuelled mainly by strong demand for housing loans. Overall loans and advances to households increased by almost 27% to EUR 2.1 billion as of year end 2007. Non-performing loans increased to EUR 195 million, while risk provisions grew to EUR 164 million.

Outlook 2008

The outlook for SLSP, the banking market and the economy remain excellent. While economic growth is expected to slow somewhat to about 7%, real income growth and the expectation of imminent eurozone entry should provide ample growth opportunities. Maintenance of the overall leadership position will remain at the top of the agenda. In financial terms the bank targets net profit growth of at least 10% – impacted by upfront investment expenditure into the new core banking system and euro adoption preparations – and a return on equity of above 20% in 2008. All targets relate 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 800,000 private customers in its nationwide network of 197 branches.

Economic review

2007 was a year of economic slowdown in Hungary, as the effects of the austerity package, which substantially increased the tax burden on individuals and corporates, started to hit home. While the government managed to cut the budget deficit by a third, it also choked the economy. Private consumption fell for the first time in years, as the population had to cope with a decline in disposable income. While domestic demand was clearly in recession territory, dynamically growing exports kept the economy alive. Overall, GDP grew by a subdued 1.3% in real terms, translating into a GDP/capita of EUR 9,900. Unemployment also edged up slightly from 7.5% to 7.7%, in line with slower economic growth. GDP is likely to bounce back in 2008, however, growth will be smaller than previously expected.

Key economic indicators – Hungary	2004	2005	2006	2007e
Population (ave, million)	10.1	10.1	10.1	10.1
GDP (nominal, EUR billion)	82.3	88.9	89.9	100.7
GDP/capita (in EUR thousand)	8.1	8.8	8.9	9.9
Real GDP growth	4.8%	4.1%	3.9%	1.3%
Private consumption (yoy growth)	2.5%	3.4%	1.9%	-1.2%
Exports (share of GDP)	54.4%	56.4%	62.6%	68.7%
Imports (share of GDP)	57.4%	58.0%	63.6%	67.6%
Unemployment (Eurostat definition)	6.1%	7.2%	7.5%	7.7%
Consumer price inflation (ave)	6.8%	3.6%	3.9%	8.0%
Interest rate (1m interbank offer rate)	11.5%	7.2%	6.9%	7.7%
EUR FX rate (ave)	251.7	248.1	264.3	251.3
EUR FX rate (eop)	245.9	252.7	251.8	253.4
Current account balance (share of GDP)	-8.4%	-6.8%	-6.5%	-5.2%
General government balance (share of GDP)	-6.5%	-7.8%	-9.2%	-5.7%

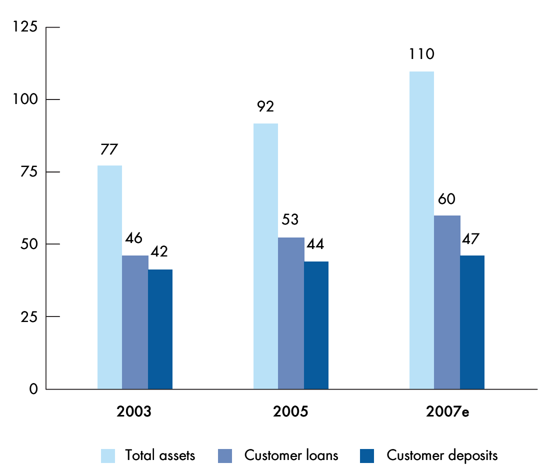
Source: Erste Bank.

In contrast to the real economy, the local currency – the Hungarian Forint – remained relatively stable against the euro after significant intra-period volatility in the previous year. This positive development was mainly due to the hawkish stance of the national bank, which hiked its local reference rate to 8% during the course of 2006. In 2007 the central bank started to ease rates, which ended the year at 7.5%. Further rate decreases were made impossible by worse than expected inflation figures mainly due to increasing food prices. The major point of worry, the budget deficit, narrowed substantially but remained at unsustainable levels, especially against the backdrop of gross government debt levels above 70%. The current account balance also remained solidly negative, but showed a significantly improving trend thanks to strong exports.

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. As a result of slower economic growth, banking assets grew broadly in line with GDP; compared to just five years ago the asset/GDP-ratio was up comfortably, reaching 110% in 2007. Loan penetration followed a similar trend, rising from 46% in 2003 to 60% in 2007. Over the same period housing loan penetration rose sharply from 8% to above 12%, 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.

Financial intermediation – Hungary (in % of GDP)

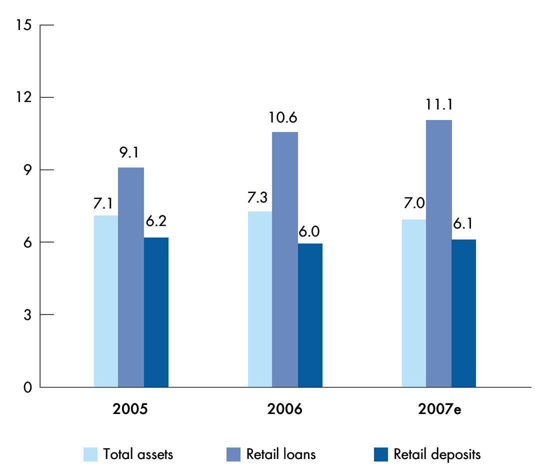


Source: Hungarian National Bank, Eurostat.

The dominance of foreign exchange loans remained a feature of the Hungarian banking market in 2007. The vast majority of retail loans were disbursed in Swiss Francs 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.

As for Erste Bank Hungary, it successfully maintained its total asset market share at 7.0% in 2007. It ranked second by branch numbers and clients. The rise in retail deposit market share has to be viewed against the decrease in fund management market share, which retraced slightly from 13.6% at the end of 2006 to 12.6% 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 12.9% from 11.5% a year ago thanks to newly introduced attractive products and the expanded branch network.

Market shares – Hungary in %



Source: Erste Bank Hungary, Hungarian National Bank.

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. In light of the recent economic weakening, a further improvements in customer service is also high on the agenda.

Highlights 2007

Mortgages in demand. Erste Bank Hungary continued to be among the leading financial institutions in the Hungarian mortgage loan market. It held market shares of 12% and more than 17% in classic housing and free utilisation loans respectively. FX loans, mainly in Swiss Francs, accounted for the vast majority of new volume (more than 90%), due to the significant interest rate differential and policy of the national bank to maintain currency stability at the expense of higher local interest rates. Mortgages continued to be the fastest growing part of the loan book; even though growth was more subdued than in previous years, mortgages registered growth north of 20% in 2007.

Highly beneficial postal cooperation. The main attraction of the collaboration with the Hungarian Post Office is access to an additional distribution channel without the fixed costs traditionally associated with operating such channels. The Post Office benefits from an extended and modern product portfolio of simple banking products run under its own brand name, such as current accounts, bank cards, deposits, investment funds, personal loans and credit cards, which create additional revenue streams. In light of the recent economic weakness, the cooperation proved a significant competitive advantage: the number of bank accounts surpassed the 100,000 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.

Solid performance 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 21,000 enterprises with a turnover of between EUR 0.8 million and EUR 80 million. In 2007 Erste Bank Hungary made solid progress both in terms of customer and volume growth: a total of 621 new accounts were added.

Moving upmarket in leasing. Despite a declining new car market and increased competition, Erste Bank Hungary maintained its No. 3 position in the car leasing market in 2007. A continuously widening and marketable product range covering loans with integrated CASCO insurance and FX-based car loans with fixed monthly instalments, excellent service provided to the dealers, a very efficient agent network and the continuous streamlining of back-office processes were the main performance drivers. In addition, successful relationships with dealers in the compact or bigger car class segments (Opel, Ford) were established in order to counter the decline in the city and subcompact car segments.

Financial review

in EUR million	2007	2006
Pre-tax profit	123.4	111.8
Net profit after minority interests	92.6	85.2
Operating result	194.1	168.0
Cost/income ratio	54.2%	55.2%
Return on equity	29.8%	31.0%

Erste Bank Hungary's operating result grew from EUR 168.0 million to EUR 194.1 million or by 15.5% (EUR 26.1 million). Net interest income showed a small increase of 0.8% (EUR 2.0 million) from EUR 251.2 million to EUR 253.2 million. A factor detracting from net interest income was the correction for interest accrued in the prior year (about EUR 8 million in the first quarter of 2007). In addition, the change in the allocation of up-front commission expense in the leasing business from net fee and commission income resulted in a decrease in the latter. The significant increase in risk provisions from EUR 34.2 million to EUR 59.3 million is consistent with the growth in lending and the overall macroeconomic developments. Furthermore, in the fourth quarter of 2007, portfolio risk provisions of EUR 6.4 million were created for the credit portfolio.

Net fee and commission income rose substantially to EUR 133.4 million, from EUR 88.4 million in 2006. This resulted from a significant increase in payment services and securities business and also partly from the presentation changes described above. General administrative expenses rose by 11.2% from EUR 206.9 million to EUR 230.1 million, owing mainly to higher staff costs in connection with the branch network expansion and the legally required employment of temporary staff at the bank. On the other hand other administrative expenses declined by a currency-adjusted 2%. An improvement in other result (to a negative EUR 11.3 million from a deficit of EUR 22.0 million in 2006) was attributable largely to a change in the allocation of the expense for local taxes (municipal and innovation tax) into the line item taxes on income. Net profit after minority interests strengthened by 8.6% from EUR 85.2 million to EUR 92.6 million.

The cost/income ratio was 54.2% and return on equity declined from 31.0% to 29.8%.

Credit risk

At Erste Bank Hungary 2007 was marked by a 14% growth of credit exposure to EUR 8.2 billion. In the retail portfolio, growth was driven by mortgage lending, up 31%, 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. At year-end 2007 the NPL coverage ratio stood at 93%, which was the result of a case-by-case expected loss estimation-based provisioning in the corporate segment, and sub-portfolio level provisioning in the retail segment.

Outlook 2008

After a substantial economic slowdown in 2007, 2008 is expected to see a small up-tick in growth. In combination with the completion of the branch network expansion and the deepening of the cooperation with the Hungarian Post Office, this should lead to improved profitability, underscoring the fact that highly profitable operations can be maintained even in a more challenging operating environment. Erste Bank Hungary is confident of achieving net profit growth in the order of at least 30%, a return on equity of above 20% in 2008.

Croatia

Business profile. The Croatia segment includes the operation of Erste Bank Croatia (EBC) and its subsidiaries, the most prominent of which is the recently acquired credit card issuer, Diners Club Adriatic (DCA). DCA is the second largest credit card company in Croatia and will be a major source of fee generation going forward. All in all, EBC is one of the largest and fastest-growing banking institutions in Croatia. Its client base numbers more than 680,000 and is serviced through a nationwide network of 115 branches and 1,886 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 distributes asset management, life insurance, securities brokerage, leasing and pension funds products. In several of these segments, most notably asset management, securities trading and leasing, EBC occupies leading positions.

Economic review

In 2007 real growth of the Croatian economy accelerated further. GDP grew by an estimated 5.7% in 2007, while GDP/capita reached a level of some EUR 8,500. Growth was driven by efficiency gains as well as accelerated employment growth. In fact, the unemployment rate dropped to below 10% for the first time in many years. Strong domestic demand, boosted by private consumption fuelled overall GDP performance in 2007, while fixed capital formation lost some pace after a buoyant 2006, but remained solid and supportive of growth.

Despite an increase in agricultural and food prices, average inflation declined further in 2007. Real wage growth was in line with productivity gains. The exchange rate moved in a narrow range versus the euro, partly due to the national bank’s interventions to prevent volatility. In addition the central bank continued its quest to curb foreign indebtedness, by leaving prohibitive reserve requirements on banks’ foreign exchange liabilities in place and setting a strict annual growth limit of 12% on bank lending.

On the fiscal side, the general government deficit improved to an estimated 2.3% of GDP in 2007, while the current account deficit stayed essentially flat at a high 8.1%, mainly as a result of the negative trade balance. However, this was well covered by record foreign direct investments that were related to strong capital inflows in the financial and telecommunication sectors.

Key economic indicators – Croatia	2004	2005	2006	2007e
Population (ave, million)	4.4	4.4	4.4	4.4
GDP (nominal, EUR billion)	28.7	31.3	34.2	37.6
GDP/capita (in EUR thousand)	6.5	7.0	7.8	8.5
Real GDP growth	4.3%	4.3%	4.8%	5.7%
Private consumption (yoy growth)	4.8%	3.4%	3.5%	5.9%
Exports (share of GDP)	23.0%	23.1%	24.6%	24.6%
Imports (share of GDP)	46.5%	47.1%	49.1%	49.6%
Unemployment (Eurostat definition)	13.8%	12.3%	10.5%	9.8%
Consumer price inflation (ave)	2.1%	3.3%	3.2%	2.9%
Interest rate (1m interbank offer rate)	7.0%	6.0%	4.2%	5.8%
EUR FX rate (ave)	7.5	7.4	7.3	7.3
EUR FX rate (eop)	7.7	7.4	7.4	7.3
Current account balance (share of GDP)	-5.1%	-6.4%	-7.8%	-8.3%
General government balance (share of GDP)	-4.9%	-4.2%	-3.0%	-2.3%

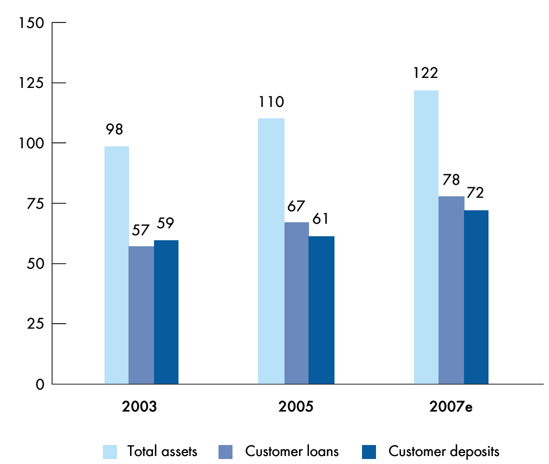
Source: Erste Bank.

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 2007, up strongly from 98% recorded in 2003. Growth of the sector was mainly driven by the asset side, in particular by household loans which rose from 28% of GDP to above 40% 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 8.5% in 2003 to over 16% in 2007. On the liability side the deposit-to-GDP ratio rose from 59% in 2003 to 72% in 2007.

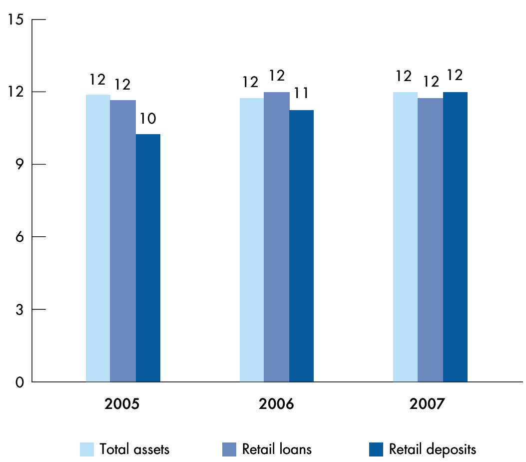
As in Hungary and in contrast to the Czech Republic and Slovakia loan growth was driven by increased foreign exchange lending. The central bank reacted by maintaining strict marginal reserve requirements on foreign exchange liabilities of commercial banks in an effort to curb external indebtedness. It also tightened growth limits on lending for commercial banks during the course of 2007. Despite the more challenging market environment, EBC managed to outperform market growth in most categories in 2007. The best performance was achieved in corporate lending where the bank's market share rose from 12.6% a year ago to 13.6% in 2007.

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 proactive and personalised approach to customers, are at the core of the bank's efforts of delivering superior value to its clients.

Highlights 2007

Solid performance amid challenging environment. The operating environment for Erste Bank Croatia was strongly influenced by the strict lending growth limits set by the national bank. While this put pressure on retail loan margins in particular, fee income from the higher volume of payment transfers, increased bank card usage and higher investment fund sales more than made up for this. Fees from investment banking, i.e. underwriting of securities, also made a positive contribution. EBC also benefited from the privatisation of incumbent telecom provider T-HT, for which it arranged a very successful and heavily oversubscribed retail offering in Croatia.

High levels of activity in the retail business. In order to be closer to the customer, provide a better service and increase efficiency the structure of the branch network was fine-tuned further in favour of larger branches. Additional retail projects included the establishment of a mobile sales force in cooperation with external companies, and a new campaign targeting the collection of domestic deposits, e.g. by offering savings accounts for children. Finally, an image campaign aimed at the micro customers segment was launched, with the goal of increasing the customers' awareness of EBC as their potential business partner.

New products for corporate customers. Erste Bank Croatia launched a number of innovative products that helped the bank expand its market share in the corporate segment. These included a cash pooling product, real estate financing facilities, export packages operated in cooperation with local factoring and leasing subsidiaries, and a VISA business revolving credit card. Other initiatives ranged from the promotion of public private partnerships under the patronage of the Republic of Croatia to the provision of loans to family and small hotels, and the support of entrepreneurial zones related to investments projects.

Financial review

in EUR million	2007	2006
Pre-tax profit	105.0	64.1
Net profit after minority interests	55.7	32.9
Operating result	128.1	76.1
Cost/income ratio	48.1%	52.6%
Return on equity	39.2%	24.1%

With effect from 2007, Erste Bank Croatia is consolidated as a partial group within the group accounts of Erste Bank. This produced effects in net fee and commission income and in general administrative expenses that almost completely offset each other. From the second quarter of 2007, the results of Diners Club Adriatic d.d. (DCA) are also included in the Croatia segment.

Operating result at Erste Bank Croatia increased markedly compared to 2006, by 68.3% (EUR 52.0 million), rising from EUR 76.1 million to EUR 128.1 million. Net interest income registered considerable growth – in spite of the restrictive legal regime aimed at curbing foreign-currency lending in Croatia and generally limiting credit growth – thanks to accelerating growth in lending and to stronger margins as the retail product mix shifted in favour of higher-interest products. As a consequence, net interest income rose by EUR 48.2 million from EUR 111.1 million to EUR 159.2 million (DCA's contribution: EUR 10.3 million). Net fee and commission income more than doubled from EUR 29.7 million to EUR 68.6 million – buoyed particularly in payments and securities business, but also by the income from credit card subsidiary DCA (which contributed EUR 19.2 million). General administrative expenses increased by EUR 34.1 million or 40.4% from EUR 84.5 million to EUR 118.6 million, due largely to the above-mentioned inclusion of additional subsidiaries. Return on equity rose sharply from 24.1% to 39.2% and the cost/income ratio improved from 52.6% to 48.1%.

Credit risk

Credit exposure at Erste Bank Croatia expanded by 13% to EUR 5.8 billion in 2007. Compared to last year, the structure of the portfolio did not change significantly: corporate and private lending generated the strongest growth and represented almost 70% of the total portfolio. While the rating distribution was impacted by new rating methods, the structure of the portfolio remained satisfactory and the portfolio quality continued to improve: the non-performing loan (NPL) ratio decreased from 3.0% to 2.6%, while NPL coverage rose from 105.5% at the end of 2006 to 119.0%. Risk provisions as a percentage of the overall portfolio declined slightly from 3.1% to 2.8%. As a result of the central bank measures, the share of FX loans decreased significantly to 60.6%.

Outlook 2008

In 2008 the operating environment will continue to be challenging for Erste Bank Croatia. A case in point is the central bank's growth cap of 12% on banks' loan books, including off-balance sheet products. In response EBC will try to push higher margin products, such as cash loans on the retail side, while focusing on lending through the Croatian Bank for Reconstruction and Development in the corporate segment. On the funding side the focus will be on attracting domestic FX and local currency deposits. In financial terms Erste Bank Croatia targets net profit growth of 30% in 2008, while return on equity should reach 17%. All targets relate to local consolidated figures.

Serbia

Business profile. Erste Bank Serbia has some 260,000 clients and a network of 63 branches for retail business as well as 15 centres for corporate business. Catering to the needs of a broad retail and mid-market corporate client base, the bank is well represented in the major business centres in Serbia. Erste Bank Serbia offers a wide range of financial products. The bank's current market share is some 2.5% in key product segments; however, its position is considerably stronger in alternative distribution channels, with some 10% market share in electronic payments in Serbia.

Economic review

In 2007 Serbia posted healthy real GDP growth of 5%, down marginally on 2006, while GDP/capita reached a level EUR 3,800. Growth was driven by strong domestic demand, especially in the form of private consumption. Public consumption also accelerated substantially ahead of general and presidential elections, resulting in a worse than expected, but still positive budget balance. Serbia's ongoing transformation process was reflected in a relatively high unemployment rate, which remained stubbornly high at 20%.

Key economic indicators – Serbia	2004	2005e	2006	2007e
Population (ave, million)	7.6	7.6	7.6	7.6
GDP (nominal, EUR billion)	19.7	21.1	24.8	29.9
GDP/capita (in EUR thousand)	2.6	2.8	3.3	3.9
Real GDP growth	8.4%	6.2%	5.7%	7.3%
Private consumption (yoy growth)	na	na	na	na
Exports (share of GDP)	15.3%	19.1%	20.8%	21.7%
Imports (share of GDP)	42.5%	39.4%	40.7%	43.2%
Unemployment (Eurostat definition)	18.5%	20.8%	20.9%	20.0%
Consumer price inflation (ave)	10.1%	16.5%	12.8%	6.8%
Interest rate (1m interbank offer rate)	na	20.2%	21.0%	10.9%
EUR FX rate (ave)	72.6	82.9	84.1	80.1
EUR FX rate (eop)	78.9	85.5	79.0	79.2
Current account balance (share of GDP)	-11.6%	-8.5%	-11.7%	-16.8%
General government balance (share of GDP)	1.1%	1.6%	0.2%	-1.0%

Source: Erste Bank.

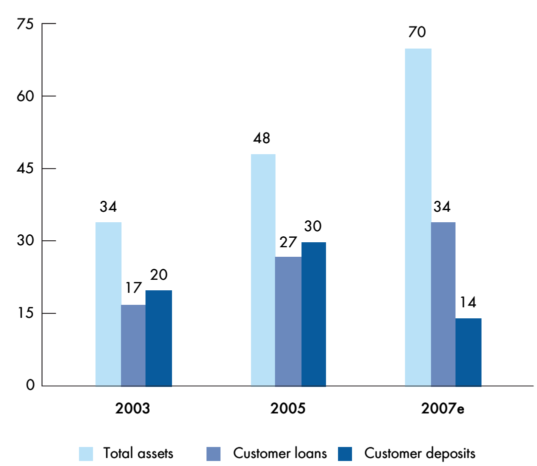
2007 also saw a continuation of the disinflation trend thanks to a vigilant central bank that adjusted interest rates with a view to keep inflation within its target range of 4-8%. The central bank also employed a cocktail of measures to stem credit growth, amongst others high reserve requirements, foreign 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 remained in positive territory, despite stronger than expected wage increases in the public sector. Foreign direct investments slowed from the exceptional levels seen in 2006, mainly due to slower privatisation progress, but still covered a substantial part of the current account deficit.

Market review

Despite the strict monetary policy regime the Serbian banking sector continued to grow substantially faster than GDP. 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 reached 13% of GDP for the first time. Mortgage loans also rose fast, but still amounted to only 4% 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 earlier this decade, 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 70% at the end of 2007, strongly up from 48% two years ago. In a similar fashion loan penetration rose by 7 percentage-points over the same period, while deposits/GDP stayed essentially flat.

Business review

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

Highlights 2007

Significant growth in retail and SME lending. In 2007, Erste Bank Serbia increased its lending market share by over 0.5%-points to reach some 2.5%. In comparison to year-end 2006, the retail portfolio more than doubled, driven primarily by strong growth in mortgage loans which tripled, as well as cash loans and lending to micro-enterprises. Corporate loans also grew by over 100% in 2007 on the back of strong SME lending.

Strong in cards, alternative distribution channels. Erste Bank Serbia almost doubled the number of issued cards in 2007 to over 150,000, thus strengthening considerably its market presence in this segment. Card business and alternative distribution channels are a key development area for the bank. A number of new products were introduced in this segment, among others a pre-paid gift card, where Erste Bank Serbia was the first financial institution to offer this product to the local market. The bank maintained its strong presence in alternative distribution channels, with a market share of some 10%.

Expansion into corporate and investment banking. Erste Bank Serbia was also successful in significantly increasing its business with some of the largest and leading Serbian corporations, which are serviced through the Group Corporate and Investment Banking division of Erste Bank. The bank introduced a number of new financing products, including real-estate project finance both for SMEs and for institutional developers with large projects. The bank positioned itself as one of the main players on the domestic money-market and foreign exchange interbank market. Also in the segment of equity trading and sales, the position of Erste Bank in Serbia was strengthened substantially with the acquisition of Synergy Capital, one of the country's leading brokerage firms.

Financial review

in EUR million	2007	2006
Pre-tax profit	-3.4	-21.3
Net profit after minority interests	-2.7	-21.2
Operating result	-5.4	-17.7
Cost/income ratio	-	-
Return on equity	-	-

Net loss after minority interests improved from a deficit of EUR 21.2 million to a net loss of EUR 2.7 million, representing a positive change of EUR 18.5 million or 87.2%. This comparison reflected heavy restructuring activity in the base year 2006. In addition to significant growth in net interest income (to EUR 16.2 million from the prior year's EUR 9.2 million), which was driven by expansion in customer lending and interbank activity, risk provisions decreased noticeably. In 2007 both net fee and commission income and net trading result improved. General administrative expenses receded somewhat from the previous year's level (to EUR 28.4 million from EUR 30.3 million); costs in 2006 had been higher mainly because of necessary restructuring. The reason for a rise of EUR 2.1 million in other result from EUR -0.3 million to EUR 1.8 million was one-off revenue from the realisation of collateral in the first quarter of 2007.

Credit risk

Total credit exposure at Erste Bank Serbia grew by 77% to EUR 476 million in 2007, while the quality of the credit portfolio improved significantly. Non-performing loans (NPL) decreased slightly as a consequence of good collection of receivables from legacy work-out clients. Faster growth in better-rated client segments and solid collection results for overdue loans translated into a substantially reduced NPL ratio of 5.8% as opposed to 11.3% a year ago. In 2007 Erste Bank Serbia also started with the full implementation of IFRS provisioning standards, according to which risk provisioning levels are significantly lower than under local standards of the National Bank of Serbia that were applied until year-end 2006. For this reason, risk provisions as a percentage of credit exposure, decreased from 13.7% to 7.0%. Nevertheless, NPL coverage remained at a high level of 121%.

Outlook 2008

Following the significant intensification of business activities in 2007, Erste Bank Serbia is fully committed to further accelerating the pace of growth in 2008. The bank's main focus will continue to be the retail segment. Also in the corporate segment, the strong growth of the SME portfolio is expected to continue, with further substantial growth potential coming from the large corporate and project financing segments. Having reached solid geographic coverage in 2007, Erste Bank Serbia will continue to grow its branch network in 2008, with some 5 to 10 new branch openings primarily in Central and Southern Serbia. Through expansion of the geographic footprint, as well as the product portfolio, Erste Bank Serbia aims to create a sustainable basis for accelerated growth over the next years.

Ukraine

Operating environment

Ukraine is among the least developed markets in Central and Eastern Europe and hence offers substantial long-term growth potential. 2007 saw a continuation of the economic catch-up process. The economy remained strong supported by a boom in consumption and high investment growth. Real GDP grew by an impressive pace of 7.3% in 2007 after growing by 7.1% in 2006. As a result GDP per capita exceeded EUR 2,000 for the first time in 2007. Strong domestic demand resulted in rising inflation and a widening trade deficit, which peaked at 7.4% in 2007. High FDI inflows have helped lowering external debt and contributed to a significant build up in the level of foreign reserves.

Inflation figures remained at double-digit levels, mainly due pass through of high international energy prices and a poor harvest caused by the drought as well as rapid growth in public wages and state benefits. Average inflation stood at 12.8% while the year-end inflation reached 16.6%. The inflation target for 2008 is to push it below 10%. The exchange rate closed the year only slightly weaker, which was key to the stability of monetary policy.

The Ukrainian banking market has continued to grow rapidly, partly due to high GDP growth. Retail banking grew faster than the corporate business. As a result of the booming household segment total assets to GDP reached 89% by the end of 2007 up from 63% a year earlier. The banking market remained highly fragmented with 176 banks operating in the country at the end of 2007, none of which had a banking asset market share higher than 10%. While the underlying fundamentals of the market in terms of asset quality and profitability were healthy, a consolidation of the sector is highly likely in the medium term. Due to high local interest rates FX lending remained a key feature of the market in 2007: in effect, more than 90% of loans are denominated in USD.

Financial review*

in EUR million	2007	2006
Pre-tax profit	-23.0	-
Net profit after minority interests	-19.1	-
Operating result	-12.6	-
Cost/income ratio	-	-
Return on equity	-	-

*) No comparable segment contribution data available for 2006.

Following the 100% acquisition of Bank Prestige by the group in January 2007, the focus of activity in this segment has been the expansion of the market position of the bank, renamed "Erste Bank Ukraine". By 2010, the objective is to increase the market share to 4% and enlarge the network of outlets to approximately 400 branches across the country. At the end of 2007, the bank had 1,130 employees and operated 71 branches with preparations to open an additional 52 branches underway. In comparison to the third quarter of 2007, the fourth continued to show a very pleasing rise in net interest income, driven by growth in loans and advances to customers. General administrative expenses, as anticipated, increased significantly from the third quarter as a result of the rapid business expansion. Net loss after minority interests in the Ukraine segment for the reporting period was EUR 19.1 million.

Credit risk

At Erste Bank Ukraine total loans to customers rose by almost 300% from EUR 72 million to EUR 287million in 2007, while total credit exposure increased to EUR 488 million. Retail and micro lending was the key growth driver, up 435% from EUR 37 million to EUR 197 million. The growth in retail loans was a result of strong demand for mortgages and especially "American mortgages". Loans to corporate customers grew by 155% to EUR 89 million. As of year-end 2007, non-performing loans amounted to EUR 5 million which represented 1.0% of total credit exposure. Risk provisions increased to EUR 10 million which represented 2.1 % of total credit exposure.

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. As part of the reorganisation of Erste Bank, the International Business segment will become part of the newly established Group Corporate and Investment Banking division, which in turn will be one of the operating units of the newly established holding.

Erste Bank's London Branch, with some 50 employees, engages in wholesale lending ranging from leveraged and acquisition finance to structured trade, commercial property and aircraft finance. The main focus is on the European market with a growing share of business in Central and Eastern Europe.

The New York Branch is involved in wholesale banking. The Treasury department oversees interest rate and liquidity risk and, manages various investment and trading portfolios. It diversifies the group's funding sources and manages a portfolio of highly liquid and highly rated medium-term securities. The Lending department generates cash assets in the leveraged loan, project finance and trade finance markets and also invests in debt securities, structured finance issues and synthetic assets.

The Hong Kong Branch, as the group's sole point of representation in Asia Pacific, primarily focuses on the development of a portfolio of Asian credit exposures, the support of group business initiatives, cultivation of stable regional funding sources in order to enhance group liquidity, and engages in trading selected financial markets products, all on a proprietary basis.

The International Finance Department operates as a profit centre in Vienna and is active in lending through various loan products including synthetic ones, primarily to financial institutions and sovereigns. As per year end, it ran a portfolio of approximately EUR 13.5 billion, with credit default swaps accounting for one third.

Within the new group structure a Group Loan Syndication and Portfolio Management Department has been set up. The aim is to provide Erste Bank's clients across its extended home market with substantial loan amounts including underwritings, as an agent of these loans and to distribute the assets to banks and investors worldwide.

Business review

Strategy. The strategic goal of the New York Branch is to manage a portfolio of short- to medium-term asset classes on the one hand and develop a well-diversified portfolio of funded and synthetic assets that have a liquid secondary market on the other. Attractive investment opportunities are continuously identified through the use of fundamental credit skills. The London Branch puts strong emphasis on supporting and complementing the development of the large corporate business of the group in Central and Eastern Europe, in addition to generating a steady and growing income stream from a diversified loan portfolio. The Hong Kong Branch aims to maintain a high-grade portfolio of regional credit exposures principally to governments and related entities, financial institutions, industry leading corporate entities engaged in staple industries and asset backed securities. The development of a stable source of low cost liquidity from regionally domiciled counterparties is also a key focus. The International Finance Department in Vienna targets the maintenance of a balanced portfolio dominated by investment-grade rated financial institutions and sovereigns, and arranges syndicated loans in order to generate additional fee income.

Highlights 2007

New York Branch expands commercial paper programme. The New York Branch expanded its successful commercial paper programme, which was launched in 2006 with an initial limit of USD 3.0 billion to USD 7.5 billion in 2007. Multiple reductions in the Federal Funds target rate as well as in the rate at which participating banks could borrow from their Discount Window Facility led to a reduction in overnight funding costs. On the lending side, the branch locked in attractive risk-adjusted returns while preserving capital. Return on equity calculated in accordance with Basel II reached about 25%.

London Branch employs risk-conscious approach. Faced with more exuberant market conditions in the first half of the year and the severe market dislocation later on, the branch has been very measured in growing its total assets and disciplined in its risk taking approach throughout the year. As a result return on equity (Basel II) improved further to a healthy 31% while asset quality remained excellent. The importance of Central and Eastern Europe for the branch's business continued to grow. Beyond the historically strong presence in acquisition finance the business volume generated in the bank's core market and in other parts of the region spread also over other business units of the London Branch.

Hong Kong Branch treasury acquires new sources of liquidity for the group. Notwithstanding pressure on lending margins during the first half of 2007 and significant market disruption towards the end of the year, return on equity reached an impressive 50% while the cost/income ratio stood at only 16.5%. The regional investment portfolio includes debt securities in the form of asset swaps, floating rate securities, loans and single name credit default swaps, with the share of investment grade rated securities unchanged at 84%.

Vienna Profit Centre continues its success. Despite sizeable redemptions, the portfolio has grown by 15%. The share of investment-grade rated securities remained very high at 86%.

Financial review

in EUR million	2007	2006
Pre-tax profit	161.9	160.0
Net profit after minority interests	121.9	118.2
Operating result	148.6	147.8
Cost/income ratio	19.7%	18.9%
Return on equity	27.4%	23.5%

Net profit after minority interests increased by EUR 3.7 million or 3.1% from EUR 118.2 million to EUR 121.9 million. Other result saw a marked decrease (to EUR 3.3 million from EUR 10.1 million in 2006) owing to positive one-off effects in 2006 totalling EUR 8.1 million from the revaluation of financial assets and sale of written-off loans and receivables. In 2007 risk provisions that were no longer required given the improved risk situation in the credit portfolio were released. Operating result, at EUR 148.4 million, was held at the prior-year level; the cost/income ratio was an impressive 19.7%. Return on equity, amid the lower capital requirement under Basel II, rose from 23.5% to 27.4%.

Credit risk

2007 was another excellent year characterised by low defaults. Non-performing loans (NPL) remained low at EUR 18 million compared to EUR 16 million a year ago. Risk provisions decreased from EUR 69.0 million to EUR 49 million, which resulted in a NPL coverage ratio of 266%. As the favourable economic environment is unlikely to continue, a marginal increase in NPLs is expected for 2008.

Outlook 2008

In 2008, the International Business segment will continue to adhere to a conservative credit policy and pay close attention to the selection of transactions. The New York Branch intends to complement its cash exposure in the leveraged loan market with synthetic exposures such as credit default swaps based on the underlying creditworthiness of the debt issuers. The London Branch expects a slowdown in acquisition finance activities, but plans to compensate for it through opportunities related to Erste Bank's further expansion in CEE. In addition to the continued development of the Asian portfolio, the Hong Kong Branch will also complement the strategies of the newly established Group Corporate and Investment Banking and

Global Markets divisions. The International Finance Department in Vienna will focus on securing sustainable and stable income streams, while maintaining high credit quality levels.

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

Key marketing initiatives in CEE. Highlights of the marketing year included the introduction of a new marketing concept in the Czech Republic and the rollout of the group corporate design in Romania. Česká spořitelna successfully contracted internationally recognised football player Petr Cech as being the new face of the bank. Petr Cech, goalkeeper of the British premier league club FC Chelsea and the Czech National Soccer Team, is a client of Česká spořitelna since his early childhood days. With him Česká spořitelna has one of the greatest sportsmen in the Czech Republic and Europe representing the bank. His likeable personality will support the brand image of the bank among all target groups.

Starting September 3, 2007 BCR has undergone a carefully planned logo and corporate design change. The launch of the new logo, which is designed in Erste Group colours and includes the red “s” represents the beginning of a new successful stage in BCR’s history. The change graphically demonstrates that BCR is a powerful member of Erste Group and reinforces BCR’s position as the leader in the Romanian banking market. The launch of the new logo was accompanied by a new image campaign, which conveys the message behind the logo change to the public and to BCR’s customers. The key message – “We think alike” – is aimed at emphasising the bank’s desire to meet the customers’ requirements and to harmonise the goals of both sides.

Further extensive activities in the field of IT. A multitude of projects have been implemented or initiated not only at group level, but also in the countries of the extended home market. Particularly worthy of mention are the ongoing and already largely completed organisational and IT transformation of BCR, the core banking system migration at Slovenská sporiteľňa, the implementation of the core banking system at Erste Bank Ukraine, the technical implementation of the Group Performance Model project as well as the computer centre consolidation at Česká spořitelna.

In addition, 2007 was dominated by activities related to the setup of Erste Bank Holding. The IT-related separation of the Austrian core systems, the creation of suitable technical support for the divisionalised areas GM/GCIB and many other plans to support the holding have been realised or are about to be completed according to plan. Furthermore, organisational development measures were speeded up with the department Org/IT in order to further improve the interplay between business, organisation and IT service providers both at local and group level.

Further development of procurement activities. We pressed ahead with the redevelopment of the procurement function in 2007. Through close cooperation, knowledge transfer between those responsible for purchasing in all of Erste Bank’s markets was actively promoted, leading to better and more uniform market development. The success of this strategy was revealed in many cost-cutting initiatives, such as in the areas of telecommunications, soft- and hardware, facility management, outsourcing (call center in Romania), consulting, HR services, office operations and travel management (airlines and hotels).

Alongside strategic and operative purchasing, the transformation project “PARiS” can also reflect on a successful year. In this project, important elements of order processing and accounts payable are being outsourced to business partner Accenture. To this end, standardised ordering software and the related processes are being introduced in all of Erste Bank’s markets which are connected to SAP. The roll-outs planned for 2007 in Slovakia and Austria (Erste Bank AG and Holding) were implemented according to plan. In addition, the roll-out plans for Romania and the Czech Republic were prepared. At the end of 2008, a total of around 40 entities (banks and subsidiaries of Erste Bank) from five countries will operate the new ordering solution, which for the first time will lead to a standardisation in the entire group, to greater transparency and thus cost efficiency.

Financial review

in EUR million	2007	2006
Pre-tax profit	-270.8	-144.9
Net profit after minority interests	-191.2	-95.6
Operating result	-126.7	-87.2
Cost/income ratio	-	-
Return on equity	-	-

The Corporate Center segment encompasses the following: the results of those companies which cannot be clearly assigned to a specific business segment; consolidating entries; amortisation of the customer relationships of BCR and DCA; and one-time effects, that, in order to safeguard comparability, have not been allocated to a business segment. Thus, in the 2007 results, the "unwinding effect" (compound interest effect from expected cash flows from non-performing loans and advances to customers) of about EUR 62 million was allocated to this segment. In the prior-year comparison, this positive effect in 2007 net interest income is fully offset by the absence of the positive effects from the 2006 capital increase. On balance, the unwinding effect was profit-neutral, as the positive effect in net interest income was also accompanied by higher risk provisions. As a result, in 2007 the risk provisions increased by EUR 67.7 million overall. Most of the change in net fee and commission income and general administrative expenses represented consolidating entries in respect of companies providing banking support services. Important cost items within general administrative expenses were group projects as well as expenses related to the restructuring of the Erste Bank Group. Net trading result grew in the first half of 2007 thanks to gains from the revaluation of strategic positions. Other result includes the newly required amortisation of the customer relationships of both BCR and Diners Club Adriatic d.d. totalling EUR 81.8 million.

Imprint

Publisher and copyright owner:
Erste Bank der oesterreichischen Sparkassen AG,
Graben 21, A-1010 Vienna

Editor:
Thomas Sommerauer, Erste Bank

Production:
Erste Bank with the assistance of FIRE.sys (Konrad GmbH)

Photography:
Peter Rigaud c/o Shotview Photographers (Seite: 4, 5)
Elisabeth Kessler (Seite:6)

Printer:
Holzhausen Druck & Medien GmbH,
Holzhausenplatz 1, A-1140 Vienna