

**Erste Bank der  
oesterreichischen  
Sparkassen AG**

# 2006 Annual Report

[The German text of this 2006 Annual Report shall be binding. The English translation is for information purposes only.]

**ERSTE**

## CONTENTS

<b>Management Report and Financial Review of Erste Bank AG</b> .....	1
Details on earnings .....	2
Notes on the balance sheet .....	3
Events after the balance sheet date and outlook for 2007 .....	5
Notes on the financial risks of Erste Bank and its risk management goals and methods.....	7
Corporate Social Responsibility.....	9
<b>Balance Sheet of Erste Bank AG</b> .....	16
<b>Income Statement of Erste Bank AG</b> .....	19
<b>Notes to the 2006 Financial Statements</b> .....	21
Proposed distribution of profit.....	46
<b>Attachment to the Notes</b> .....	47
Executive bodies of Erste Bank AG.....	47
Consolidated statement of changes in fixed assets and long-term assets 2006.....	52
Equity interests 2006.....	53
<b>Auditors' Report</b> .....	58
<b>Supervisory Board Report</b> .....	59

Erste Bank der oesterreichischen Sparkassen AG Graben 21  
1010 Vienna

Responsible for the content: Investor  
Relations

Fax: +43 (0) 5 0100 13112  
E-mail: [investor.relations@erstebank.at](mailto:investor.relations@erstebank.at) Internet:  
[www.erstebank.com/ir](http://www.erstebank.com/ir)

**Erste Bank der  
oesterreichischen  
Sparkassen AG**

# 2006 Annual Report

## 2006 Erste Bank AG MANAGEMENT REPORT

### Summary Financial Review of Erste Bank AG for 2006

In fiscal year 2006, the **operating income** of Erste Bank AG grew by 3.1% to a total of EUR 1,305.0 million. For the most part, this was the result of the increase of interest income (net interest income and income from securities and equity interests) by 5.2 percent.

As a result of the increase of **operating expenses** by 10.6 percent to EUR 730.8 million, the **net operating result** (operating income less operating expenses) declined by 5.2 percent to EUR 574.2 million. When considering this figure, it should be taken into account that the expenses and operating expenses include extraordinary expenses amounting to EUR 31.5 million from the capital increase carried out in January 2006. Furthermore, the operating expenses in 2006 also include one-off expenses from the change in the measurement parameters for social capital provisions.

The **cost-income ratio** (operating expenses as a percentage of operating income) was 56.0 percent in 2006, up from 52.2 percent in the previous year.

Taking into account the charges to and releases from impairment adjustments for receivables, securities and equity interests (with the risk provision requirement significantly below and securities and equity interests significantly above the previous year's figures), **results from ordinary business activities** were of a total of EUR 502.2 million, which is 16.1% above the previous year's figure.

Based on average number of employees of Erste Bank AG (4,193 in 2006, up from 4,183 in the previous year - see Notes for details), employee productivity was approx. EUR 120,000 (EUR 103,000 in the previous year).

**Net income** after **extraordinary result** and **taxes**, but before movements in reserves was EUR 479.9 million, up 13.7% on the previous year.

**Return on equity** (ROE, annual profit before allocation of profits to reserves, expressed as a percentage of average equity capital, which consists of share capital, reserves and net profit less treasury shares) was 7.9% (13.0% in the previous year).

In 2006, the 141 domestic and 3 international branches of Erste Bank together generated a business volume (**balance sheet total**) of EUR 83.7 billion, up by 12.8% on the previous year (EUR 74.2 billion). **Loans and advances to customers** increased by 8.8% to EUR 25.5 billion (EUR 23.4 billion in the previous year), while **accounts owed to customers** rose by 28.1% from EUR 13.8 billion to EUR 17.7 billion. Share capital and capital reserves grew, mainly as a result of the capital increase in January 2006.

The **Tier 1 ratio** of Erste Bank AG (regulatory Tier 1 capital pursuant to BWG expressed as a percentage of risk-weighted assets in accordance with sec. 22 (2) BWG) was 18.3 percent on 31 December 2006 (11.3 percent in the previous year); the **solvency ratio** (qualifying capital less trading book requirement and open foreign currency positions as a percentage of risk-weighted assets pursuant to sec. 22 (2) BWG) was 24.7 percent (18.0 percent in the previous year).

#### Details on earnings

**Net interest income** in 2006 showed marked growth of 16.1 percent, increasing from EUR 389.9 million to EUR 452.6 million. The main reason for this was the income accrued from investments made prior to the payment for the acquisition of Banca Comerciala Romana (BCR) in October 2006. The capital increase was carried out in January 2006 for the purpose of this transaction. Net interest income also includes the changes in provisions for interest receivables as well as the pro-rata write-ups and write-downs of long-term securities purchased above or below their redemption value.

**Income from securities and equity interests** showed a slight reduction by 4.0 percent to EUR 442.8 million (EUR 461.2 million in the previous year). The reason for this is that income from equity interests and subsidiaries included in this figure declined from EUR 428.5 million in the previous year to EUR 411.1 million in the reporting year. In particular, this decline was attributed to an atypically high dividend from Immorent AG in the previous year, resulting from a sale of equity interest.

Overall **interest balance**, calculated as the sum of net interest income and income from securities and equity interests, grew by 5.2%, reaching a level of EUR 895.5 million.

**Net commission income** declined slightly by 0.9 percent to EUR 294.4 million. When considering this figure, it should however be taken into account that it includes one-off expenses of EUR 25.1 million, incurred for the capital increase in January 2006. Net of this exceptional

effect, net commission income grew by 7.6 percent. The lending business and payment business commission results were particularly positive.

**Net trading income**, at EUR 109.6 million, was 6.2 percent higher than in the previous year at EUR 103.2 million. Growth was registered in foreign exchange trading, while securities trading results declined.

**Other operating results** were lower this year due to the non-recurrence of one-off income from the reversal of provisions in the previous year. **Other operating results** include, in particular, income from rent and asset sales.

**Personnel expenses**, as an item included in **operating expenses**, grew by 15.6 percent, from 382.6 million to EUR 442.3 million. This increase is mainly the result of salary increases stipulated in the collective agreement, as well as increases in the employee stock ownership programme and higher long-term provisions (pension provision, severance payment provision and the provision for anniversary bonuses), specifically due to the necessary adaptation of the measurement parameters used, especially the reduction of the discount rate.

The **number of employees** at Erste Bank AG (weighted according to their number of man hours spent at work) in the reporting year and the previous year is as follows:

	<b>Date</b> <b>31/12/2006</b>	<b>Date</b> <b>31/12/2005</b>
Domestic	4,351	4,294
International	94	92
<b>Total</b>	<b>4,445</b>	<b>4,386</b>
<i>of which on unpaid leave</i>	<i>272</i>	<i>266</i>

**Administration and office expenses** grew by 4.8 percent to EUR 225.4 million (EUR 215.1 million in the previous year). Above-average increases were noted for training, office and marketing expenditures. It should be taken into account that in 2006, operating expenses included one-off expenses (especially advertising and consulting expenses) of EUR 6.4 million related to the capital increase carried out in January 2006.

**Depreciation and amortisation** further decreased by 10.6 percent from EUR 57.9 million to EUR 51.8 million. This is the result of the lower investment volumes of the past three years, particularly in software development.

**Other operating expenses** more than doubled from EUR 4.9 million to EUR 11.3 million due to a one-off expenditure in 2006.

The net allocation to **risk provisions** for impairment of receivables (including receivables write-offs offset against income from written-off receivables) in 2006 was significantly lower than in the previous year. A lower net amount was noted for the international business, and revenue from receivables written off in previous periods, as well as reversals of reserves from previous periods that were no longer needed, were higher than average.

The results from **current asset securities** (valuation and price earnings) and from the income and value adjustment positions on **equity interests** and **securities** also grew sharply, so that **operating profit** increased by 16.1%, from EUR 432.6 million to EUR 502.2 million.

In 2006, **extraordinary expenses** – which remained unchanged to the previous year – once again consisted solely of expenses recognised to close the pension provision gap and the amortisation of the shortfall generated by transfers of pension obligations vis-à-vis employees to pension funds in recent years.

**Tax situation**: in accordance with the tax laws on group taxation, the main domestic subsidiaries and Erste Bank are considered as a fiscal unity. Due to the high proportion of tax-exempt income - especially income from equity interests - as well as existing loss carried forward from previous years, and the possibility to off-set capital gains taxes, no Austrian corporate income tax was payable in fiscal year 2006. On 31 December 2006, there still remained a substantial tax loss carried forward from previous years, which could be carried forward again.

**Income tax** comprised expenses from foreign capital gains and other income-related taxes, as well as the tax revenue from the tax allocation to subsidiary companies that form a fiscal unity together with Erste Bank Group under the new group taxation regulations.

**Other taxes** in 2006 almost exclusively comprised the company tax incurred by the capital increases carried out in 2006 (approx. EUR 29.5 million).

Taking into account **movements in reserves**, which resulted in additions of EUR 275.0 million (EUR 288.7 million in the previous year), net profit was 53.5% higher than in the previous year, at EUR 204.9 million.

To the Annual General Meeting, the Management Board will propose a dividend of EUR 0.65 per share, constituting an increase of approx. 18% on the previous year (EUR 0.55 per share in the previous year) be paid out from reported **net profit**, which, including the profit carried forward, was of a total of approx. EUR 205.0 million in fiscal year 2006. New shares issued in 2006 rank for dividend from the beginning of fiscal year 2006.

#### Notes on the balance sheet

The **balance sheet total** of Erste Bank AG increased by 12.8% in 2006, from EUR 74.2 billion to approx. EUR 83.7 billion.

**Loans and advances to customers** increased by 8.8% to EUR 25.5 billion: this increase was attributed mainly to the above-average development of loans to foreign customers (+17.9% to a total of EUR 11.5 billion). Domestic business showed moderate growth of 2.4% to a total of EUR 14.0 billion.

Securities investments (treasury bills, fixed-interest and variable-interest securities) have only shown lower-than-average growth of 2.5%, to a total of approx. EUR 16.7 billion. Treasury bills declined by 9.3% to a total of approx. EUR 5.4 billion.

The carrying value of **equity interests and stakes in associates and subsidiaries** nearly doubled to a total of EUR 9.1 billion, which is mainly the result of the BCR acquisition (including the shares acquired from BCR employees in December 2006).

The decline in **other assets** by 7.7% to EUR 4.5 billion is mainly the result of a reduction in securities lending transactions. Aside from the above-mentioned securities lending business, this item in particular also covers accrued interest and commission income in the derivatives business and other current accounts.

On the assets side, **loans and advances to credit institutions** grew by 10.4%, from EUR 23.9 billion to EUR 26.4 billion; on the liabilities side, **accounts owed to credit institutions** increased analogously by 9.1%, from EUR 31.5 billion to EUR 34.4 billion. Deposits from foreign credit institutions in particular showed higher-than-average growth (+16.2 percent to EUR 21.5 billion).

**Accounts owed to customers** exhibited an above-average increase of 28.1%, growing from EUR 13.8 billion to EUR 17.7 billion. This is mainly the result of the strong expansion of foreign currency deposits from foreign institutional customers at the New York branch. Domestic customers' deposits increased by 13.7% to EUR 13.4 billion.

In 2006, refinancing via **own issues** decreased. The sum total of debt securities in issue, subordinated debt and supplementary capital shrank by 2.9% during the reporting year, from EUR 20.5 billion to EUR 19.9 billion. This is the result of a reduction in Certificates of Deposit (CDs) at the New York branch by 45.9%, to a level of EUR 1.6 billion.

**Other liabilities** declined by 7.5% to a level of EUR 3.8 billion. Again, this development, which is mirrored on the assets side under "other assets", is the result of a lower securities lending volume.

Due to the capital increases carried out in 2006 in connection with the acquisition of BCR shares and the employee stock ownership programmes, **subscribed capital** increased by 29.7%, or EUR 144.2 million, to a new total of EUR 630.6 million.

For the investor information pursuant to sec. 243a of the Austrian Commercial Code (UGB, Unternehmensgesetzbuch) we refer to section III of the Notes - Explanations on the balance sheet.

In connection with the above-mentioned capital increases, **capital reserves** increased by EUR 3.1 billion, or 207.7%, to EUR 4.6 billion.

The **qualifying capital** of Erste Bank AG pursuant to the Austrian Banking Act (BWG), including capital to cover the requirements of the trading book in accordance with sec. 22b BWG and the open foreign currency positions in accordance with sec. 26 BWG, taking into account eligible short-term subordinated capital, had grown to EUR 9.5 billion by 31 December 2006, up from approx. EUR 5.5 billion in the previous year.

The legal minimum requirement was approx. EUR 3.3 billion at the balance sheet date, resulting in a coverage ratio of approx. 285% (209% in the previous year).

The **Tier 1** capital of Erste Bank AG had grown from EUR 3.3 billion in the previous year to EUR 6.8 billion by 31 December 2006, and the **Tier 1 ratio** (Tier 1 capital expressed as a percentage of risk-weighted assets pursuant to sec. 22 (2) BWG) increased from 11.3% to 18.3%.

The **solvency ratio** (qualifying capital less trading book requirements and the open foreign currency position expressed as a percentage of the risk-weighted assets pursuant to sec. 22 (2)

BWG) on 31 December 2006 had increased from 18.0% in the previous year to approx. 24.7%, and is thus still significantly above the legally required minimum ratio of 8%.

In addition, it should be noted that Erste Bank AG - and nearly all Austrian Savings Banks – are members of the **Haftungsverbund of the Savings Bank Group**, a cross-guarantee system which was created in 2001 and started operation on 1 January 2002.

The Savings Bank Group considers itself an association of independent, regionally established Savings Banks, which strives to strengthen its market position by creating an effective common product development, harmonising its market appearance and the advertising concept, pursuing a common risk policy, engaging in a coordinated liquidity management and applying common controlling standards.

In addition, it is the purpose of this agreement,

- to identify any business problems of member banks at an early stage and to provide effective assistance to its members in the resolution of business problems - which can range from offering technical assistance or giving guarantees to providing borrowed or qualifying capital, as well as
- to provide customers with a deposit guarantee system that goes beyond the legal deposit guarantee requirement (sec. 93 ff BWG), which guarantees certain types of customer deposits, by creating a suitable obligation to service the liabilities of other participating Savings Banks if the need arises.

The implementation of such measures and the analysis of the business situation of every member bank of the Haftungsverbund is the responsibility of s Haftungs- und Kundenabsicherungs-GmbH, in which the participating Savings Banks – assuming all Savings Banks participate – hold a maximum stake of 49% and Erste Bank AG always holds a minimum stake of 51%.

Taking into account the requirements of the BWG, individual members of the Haftungsverbund may need to provide assistance to other members (such as giving liquidity assistance, giving credits or guarantees and providing equity capital), and in the case of sec. 93 (3) 1 BWG, to service the guaranteed deposits of customers of a member of the Haftungsverbund. The scope of the individual services to be provided by individual members of the Haftungsverbund where needed cannot therefore be determined beforehand; any contributions made by the members of the Haftungsverbund under the statutory deposit guarantee system pursuant to sec. 93 ff BWG are taken into account.

#### **Events after the balance sheet date and outlook**

In January 2007, Erste Bank signed a purchase contract for 100 percent of **Diners Club Adriatic d.d., Croatia (DCA)**, one of the leading Croatian credit card companies. The final purchase price will be derived from the 2006 profits, but will not exceed EUR 153 million. The authorisations of the supervisory bodies in Croatia and Austria are still pending and are required for the transaction to be completed.

On 24 January 2007, the purchase of 100% of **Bank Prestige, Ukraine** was completed. The purchase contract for this transaction was signed in December 2006.

As of fiscal year 2007, Erste Bank AG will implement the **Basel II** solvency rules. The advanced IRB (internal-rating-based) assessment method will be used for the retail business; in the corporate business, for sovereigns and in inter-bank business the basic assessment based on the internal rating system will be employed. In addition, some asset categories will be valued under the standard assessment rate in accordance with statutory transition regulations. All in all, the aim is to achieve an unchanged or slightly lower requirement for qualified capital coverage.

Erste Bank AG expects **the positive business trend to continue in 2007**. After the acquisition of BCR in 2006, higher dividend payments can be expected from Central European subsidiaries starting next year.

The **Group-wide synergy projects** (Group-wide purchasing, fine-tuning of controlling systems, centralisation of IT developments, continuing service improvements for customers) should generate positive contributions to future annual results for Erste Bank.

The Erste Bank Group's targets for the **2005 through 2009 period** include the attainment of more than 20% average annual growth in net profit after taxes and minority interests. For 2007, the target value was set at a minimum of 25 percent with the inclusion of BCR.

The target value for the cost/income ratio in 2009 is below 55 percent. As equity capital grew due to the capital increases carried out in 2006, return on equity declined in the reporting year, as expected. However, it will rebound in the following years and reach a level of 18 to 20 percent in 2009.

### Comments to the financial risks of Erste Bank and its risk management goals and methods

As a financial services company, Erste Bank is particularly exposed to the following **risks**:

**a) Market risks:** these concern currency exchange risks relating to changes in value due to exchange rate fluctuations, interest-related risks due to interest rate fluctuations, which can in particular result in fluctuations of future cash flows, as well as price risks due to changes in market prices.

**b) Credit risk:** this is caused by the fact that the business partner may not be able to perform his contractual duties.

**c) Liquidity risk:** this is the risk that the bank may not have enough liquid funds to meet its own obligations.

**d) Operational risk:** this describes the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events.

#### Risk management aims and methods:

Erste Bank Group's approach to risk management seeks to find the optimum between risks and returns in order to earn a sustained high return on equity. The risk management strategy of Erste Bank Group is marked by a conservative approach to risks facing the bank that is driven both by the requirements of customer-centred banking and by the legal environment.

In application of this risk management strategy, Erste Bank Group has implemented a Group-wide system for risk monitoring and controlling, which has the task to identify all and any risks that arise throughout the Group, to measure them on a "Value at Risk" (VaR) basis and to facilitate active management control. In 2006, Erste Bank underwent an audit by the Austrian Financial Market Authority (FMA) and the Oesterreichische Nationalbank (OeNB). Having obtained positive assessments for all portfolios concerning the IRB assessment, Erste Bank is entitled, as of the delivery and effective date of the official notice, to apply the IRB assessment to all portfolios.

Under the ALCO process, Erste Bank uses the following risk assessment methods: fixed interest statements, reports on interest rate terms, capital maturity statements, gap analyses, cash value fluctuations, net interest income simulations, Monte Carlo simulations of net interest income and Value-at-Risk.

In risk controlling, the market risk is calculated using historic simulations, while credit and operational risk are calculated using Monte Carlo simulations. Risk is limited for each product either on the basis of nominal, sensitivity or Value-at-Risk limits.

In order to ensure that the main aim of overall bank risk control is met, i.e. the continued existence of the institute, its risk-absorbing capacity is determined in quarterly intervals and reported to the Management Board.

Hedging operations are conducted primarily to cover against the risk of interest fluctuations of our own issues, securities investments, the balance sheet structure, foreign currency risks of outstanding loans and for securities, share price risks, as well as to secure dividend income and to mitigate partner risk.

#### Organisation of the risk management department:

Ultimate responsibility for risk management lies with the Management Board, and a **Chief Risk Officer (CRO)** has been appointed as a member of the Management Board to oversee risk management within the Group. The CRO acts as the head of "Strategic Risk Management" (which assists in the implementation of the risk management strategy, as well as the harmonisation of risk management applications in the individual business units), the "Credit Risk Management Austria", "Credit Risk Management International" and "Credit Restructuring".

Within the Strategic Risk Management department, the "**Group Risk Control**" section assumes the function of central and independent risk controlling unit, as required by the Austrian Banking Act, and draws up Group-wide directives for processes relevant to risk management (Erste Bank Risk Rulebook).

#### Identification and management risks:

The risk control process at Erste Bank consists of 5 steps: risk identification, risk measurement, risk aggregation, risk mitigation and risk reporting.

Credit risk, the biggest risk category by far, is determined for the entire lending business of Erste Bank AG using a value-at-risk-based portfolio model.

The credit commitments are rated on the basis of Erste Bank Group's own credit rating system. In 2005, a new standard risk cost model was implemented by Erste Bank AG in marginal costing, using the internal default and transition probabilities, which anticipates the operative application of the Basel-II rules for credit pricing.

The risk classes with higher credit risk only constitute a small part of the entire risk volume. In individual cases, provisions are made in the balance sheet, taking into account the securities and creditworthiness of borrowers; for private customers and small commercial customers,

calculations are made on a lump-sum basis. Sufficient precautions to cover the associated risk level exist concerning uncollateralized shares.

The foreign currency risk exposure is low and largely mitigated by currency-matching refinancing or the use of hedging instruments.

The refinancing structure of Erste Bank does not show any increased risks in the main currencies. Only CHF-denominated loans to customers are for the most part refinanced in the short run.

Concerning the share and index positions entered, the price risks mainly exist on the large American and European markets (including the Austrian market), as well as the Japanese market, all of which have a high liquidity. Securities investments are mainly made in liquid markets. The risk of diminution of the present values of discounted cash flows is considered low.



## Corporate Social Responsibility

In 2006, Erste Bank once again succeeded in finding a good balance of the various groups' needs. Social responsibility has been a pillar of the bank's company policy since it was founded in 1819 - and remains an integral component of its company philosophy today.

The strong commitment to this principle is exemplified by the CSR AUSTRIA AWARD, which was given to Erste Bank by the Center For Corporate Citizenship and the Federal Ministry of Social Security. Erste Bank ranked first among the 100 largest Austrian companies, proving that it is a national leader in applied social responsibility.

### Update - CSR programme

In 2005, we started to extend our CSR reporting, which exhibits a very high level of transparency in economic matters, to include environmental and social concerns, and thereby to document our progress in the CSR area. The action plan introduced in the 2005 Annual Report should be considered as a multi-year plan. Some activities already came to a head in 2006, such as:

- Intensified co-operation with schools
- Customer satisfaction survey (published for the first time)
- Environmental audit (using 2005 data, which cover the majority of Erste Bank AG activities). These are presented in the following chapters.
- The Group-wide employee satisfaction survey, originally also scheduled to be conducted in 2006, was postponed to autumn 2007 in order to allow the planned changes in the Group structure to take effect.

The remaining activities are part of this multi-annual plan, which will provide the Foundation of the CSR development process at Erste Bank for the following years.

### Customers

Customer satisfaction is one of the decisive factors for success for Erste Bank. The development of relevant products is closely related to this, as are the ongoing support in financial life planning and targeted education in dealing with money.

Once again in 2006, the focus was on working with young persons. Apart from teaching youngsters about money and helping them set up their first financial plans, Erste Bank also developed suitable products, such as the free current account without overdraft facility to prevent youngsters from spending more money than they had in their account. Moreover, a pilot project was launched, under which youngsters were invited to come to the bank for a week and to formulate a youth concept together with bank representatives. The insight gained from this project will provide the foundations for further planned co-operations with schools, in which youngsters are not seen primarily as a target group for product but as people with legitimate concerns that are considered and taken up by the bank.

In the commercial customers segment, the bank last year continued to provide targeted assistance to entrepreneurs. Providing credit lines to young entrepreneurs in an economy that is based on small and medium enterprises, is a matter of social responsibility. The range of initiatives set up by Erste Bank included consulting and training offers within the GO entrepreneurs' academy framework, as well as business plan competitions.

When developing products for the private customer segment, close attention was paid to providing a high level of customer utility. The focus was on further enhancing the range of products for life planning. Aside from participating in information events on the topic together with the "Österreichisches Hilfswerk" charity, Erste Bank also enhanced its range of investment funds by including ethical funds. The collaboration with the World Wildlife Fund (WWF) in the ESPA WWF STOCK UMWELT fund, which only invests in companies that operate exclusively or mainly in the environmental sector, has been particularly innovative. A proportion of the earnings from this fund go to the WWF's Austrian water protection programme. This does not reduce customers' earnings, since ERSTE-SPARINVEST forgoes part of its earnings in the name of environmental protection. We succeeded in significantly increasing the overall volume of ethical investments in 2006.

Moreover, Erste Bank is assisting in the marketing of a microfinance fund, developing ways to offer this investment product to its ethically orientated private customers in 2007.

All in all, these targeted measures, and above all the constant high quality of regular customer care have, according to an Austria-wide study conducted for the second time in mid-2006, led to increasing customer satisfaction across all categories. The results of this study are based on the responses of approx. 15,000 private customers. Global satisfaction improved from 53% in 2003 to 55% in 2006.

Regular customer satisfaction surveys are also conducted at the Central and Eastern European subsidiaries, where they constitute an important component of employee motivation and remuneration.

### **Civil Society**

Once again in 2006, Erste Bank made a substantial contribution to the development of civil society by, among other things, assisting socially disadvantaged groups and launching numerous initiatives in the education, arts and sports sectors. Most of these initiatives had a strong Central and Eastern European focus, helping to promote understanding and integration of cultures and countries in which Erste Bank operates.

“Kontakt. The Erste Bank programme for arts and civil society” has been providing a framework for all social and cultural initiatives and activities since 2004. Every year, this platform is used to launch projects aiming to bring together people from Central and Eastern Europe to develop new ideas and perspectives together.

The main pillar in the social segment was, once again in 2006, the continuation of our long-standing co-operation with the Caritas charity, with the aim of reducing the hardships caused by the economic transformation process in Central and Eastern Europe, especially for the children in the region. Fighting poverty is a top priority in Austria as well. The following successful projects have been implemented in 2006:

- Establishment of a special-needs kindergarten and school class in Romania. This allowed 21 children to obtain the special care they need for the first time in their lives.
- Support of the charity “Aktion Menschen in Not in Österreich” (“People in Need in Austria”), with the aim of helping approx. half a million people in danger of falling below the poverty line!
- Support of the youth platform “youngCaritas.at”, which allows youngsters to learn about the work of this charity and gives them a chance to gain first-hand experience with social work.

The founding of “Die Zweite Wiener Vereins-Sparcasse” by “Die erste österreichische Spar-Casse Privatstiftung” should be considered before this background. The Vereins-Sparcasse enables persons, who for various reasons are no longer eligible for a regular bank account, to gain access to basic financial services; by giving these persons a bank account without overdraft facility, Erste Bank offers them an opportunity to find their way back into society. The Zweite Sparcasse was developed by employees and experts of Erste Bank upon instruction by the Foundation and is run by Erste Bank employees, who work in an honorary capacity, in co-operation with Caritas and other institutions that advise people who are in debt.

In the arts segment, a number of arts projects have been supported, as has been done in previous years. Among those are:

- VIENNAFAIR, the only fair for contemporary art from Central and Eastern Europe. Participation in this event was good, with 12 galleries from the region having taken part.
- The Vienna Mozart Music Film Festival with a regional concept. The cities of Brno, Belgrade, Bucharest, Zagreb and Bratislava participated in this event.
- Partnership with the Secession. This partnership allows both events and publications to be realised, as guided tours also give Erste Bank employees access to the world of art.
- Kontakt. Establishment of a sophisticated collection of contemporary art from Central and Eastern Europe. In 2006, this collection was presented for the first time in Vienna and Bratislava.

In the education, science and sports segments, Erste Bank in 2006 once again supported medical research with a research promotion award with a cash prize of EUR 7,500. In addition, an Executive MBA programme was established in Romania in co-operation with Vienna University of Economics and Business Administration and OMV. Once again in 2006, scholarships were awarded, such as the scholarship for the postgraduate course “International Taxation Law”, which was awarded in co-operation with the daily newspaper “Die Presse”. Sport sponsorships in 2006 again focused on secondary-school football and volley ball leagues and on Erste Bank’s role as main sponsor of the ice hockey leagues.

### **Employees**

Erste Bank is one of the largest employers in Central and Eastern Europe. Due to its continuing expansion, especially into Romania, the number of employees at Erste Bank increased by approx. one third in 2006. Approx. 70% of employees in 2006 worked outside Austria, with the Czech Republic and Romania as special focus zones.

### **Age structure (as of late 2006)**

	<b>Percentages</b>
51 years and above	23

41- 50 years	30
31 - 40 years	31
21 - 30 years	14
20 years and below	2

#### Other key figures

	2006	2005	2004
Employee turnover	4.8%	4.5%	4.6%
Sick days per year	7.9	8.2	8.0
Training days per year	2.6	2.6	2.8
Percentage of women in management roles	23.1%	24.3%	23.0%
Percentage of part-time employees	22.8%	23.4%	23.9%
Percentage of women part-time employees	86.4%	86.8%	85.8%

#### Human resource strategy

The integration of employees forms an important part of Erste Bank's corporate culture. This is manifested in the regularly implemented, large-scale staff surveys whose results are analysed by external consultants and taken into account by management in decision-making processes. The latest such poll was conducted in the first half of 2003. The subsidiaries in Central and Eastern Europe have also started carrying out similar surveys. A new staff survey is planned for 2007. This survey will be carried out in close co-operation with the European Employees' Council and will for the first time cover the whole Group of companies.

The high esteem in which Erste Bank holds its employees is expressed in the employee charter signed at the beginning of 2004. The employee charter documents the employee-friendly value system as well as the aims of management and staff. In addition, in order to keep pace with the changing market environment, the charter aims to create a focus on joint productivity at Erste Bank. In 2006, the bank has started its evaluation of this employee charter – we will report the results of this evaluation in 2007.

Of the concrete strategic measures taken in 2006, the adaptation to anticipated future demographic changes in the Group took centre-stage. With a view to the rising average age of employees at Erste Bank, the LIFETIME project combines activities in order to offer all generations a career development potential that is suitable to their age.

Further core strategies in 2006 were the creation of the Top Executive Development (TED) programme and the highly successful continuation of the employee profit participation plan.

#### LIFETIME success stories

We have made good progress on our way to becoming a three-generations company, especially in the segments healthcare, company and leadership culture, training and "Young Employees". Among the main LIFETIME initiatives put in on 2006 were:

- Special IT training courses for the 50+ age group
- Introduction of a new flexible pension model ("Gleitpension")
- Raising awareness among managers for alcohol, bullying and burn-out-related problems
- More intensive school support to become more attractive as an employer for young employees
- Intensification of personality development schemes

#### The Top Executive Development (TED) programme

The TED programme focuses on the development of junior managers. Periodically, managers who demonstrate exceptional management qualities are selected from this group and receive special training. In a period of 12 to 14 months, participants take part in 5-6 modules lasting 3-5 days each. These modules are conceived to develop and enhance participants' management and leadership skills, and to promote the networking process across borders and sections.

The first group of 21 junior managers from 5 countries completed the programme in 2006. In future, the TED programme will serve as the prototype for further similar programmes.

#### Employee participation in the company profits

Employees participate in company profits at three levels: through the employee stock ownership programme, which allows Erste Bank employees to obtain Erste Bank shares at a discount every year, the management stock option programme, which is intended to offer additional incentives to management and performance leaders among employees who are not members of the Group's and subsidiaries' senior management, and through an individual performance-related bonus on top of the employees' basic salary.

This third pillar of the salary system at Erste Bank will be further developed to emphasize the importance of every single employee's contribution to the success of the Group. In this way, the Group's success benefits all employees. This unique way to involve employees in the company's success, the first of its kind in Central and Eastern Europe, aims to achieve a fair balance of interests between shareholders and employees.

### **Corporate Volunteering**

Erste Bank has been engaged in the "Vernetzte Welten" ("Networked Worlds") project since early 2006. Currently, 3 projects are underway, which are run by NGOs with the support of Erste Bank.

Erste Bank's contribution to this project is that it does not charge personnel expenses for a maximum of 6 employees seconded to the NGOs for the duration of the project (3-6 months) - this is a so-called "living subsidy". The participating NGO partner organisations (Caritas, the Red Cross, SOS-Kinderdorf and others) offer employees of Erste Bank the opportunity to accept responsibility for managing innovative projects at NGOs for a defined time-frame.

This enables employees to gain an insight and an understanding of the aims and the work of social organisations, as well as to gain project management experience, furthering learning from others, building bridges between subjects and persons, accepting active social responsibility and thus to develop their own social competencies.

### **Shareholders**

The focus of the bank's Investor Relations (IR) activities in 2006 was once again on the expansion of the investor basis and on increasing awareness of the Erste Bank equity story. The highlights of the year were two road shows, each lasting two weeks, and the 4<sup>th</sup> International Capital Markets Day.

In January 2006, management visited investors in the US and Europe as part of the highly successful capital increase carried out for financing the acquisition of Banca Comerciala Romana (BCR) in which 64,848,960 new shares were issued at an issue price of EUR 45.00. In November, the regular autumn road show made stopovers in the US, Europe and the Gulf region. On average, the programme included 78 events in 16 cities.

The 4<sup>th</sup> International Capital Markets Day organised by Erste Bank was held in Bucharest on 9 October 2006. At this event, which had a record turnout with more than 70 institutional investors and analysts in attendance, management gave a detailed presentation about the core theme of "Banca Comerciala Romania (BCR)". Other items on the itinerary were updates on the development and perspectives in the markets in which Erste Bank is active, and a report on the progress of "New Group Architecture", the programme launched to enhance productivity. The live webcast of the Capital Markets Day received great interest, having been accessed 820 times on the day of the event.

Last year, management once again attended many investors' events, having been invited to numerous banking conferences by large international investment banks such as HSBC, Societe Generale, UBS, Citigroup, Goldman Sachs, Morgan Stanley, ING and Merrill Lynch. In addition, Erste Bank Group presented its strategy and equity story to international investors through road shows in Edinburgh, Geneva and Stockholm and met with investors individually. These road shows were organised jointly by the Vienna Stock Exchange, Erste Bank and other European banks.

For the seventh time in a row, Erste Bank organised an internet chat on 18 April 2006, enabling retail investors and interested parties to communicate directly with the Chairman of the Management Board, Andreas Treichl.

The great interest in the Erste Bank share was reflected again last year by the new coverage initiated by a number of brokerage firms. In all, 24 firms published research reports on Erste Bank in 2006.

### **The environment**

Significant progress has been made in environmental protection. In Austria, Erste Bank participated in the Ökoprot Projekt 2006. This project included the collection of relevant environmental indicators for 2005, the implementation and evaluation of environmental protection measures for 2006 and planning ahead for 2007 and 2008.

The environmental protection measures implemented in 2006 include the introduction of environmental controlling tools, the establishment of a new energy-conserving lighting concept and planning a campaign to optimise waste production (reduction of residual waste by 50%).

For 2007 and 2008, we have planned to implement the campaign to optimise waste production, as well as a new environmentally friendly printer concept and to evaluate the total energy efficiency of the central buildings audited in 2006. An environmental audit and certification is being considered, but no decision has been taken on the issue as yet.

As part of this project, we have also sketched out an environmental policy, the finer details of which are currently being discussed with the Management Board. Furthermore, a database of the legal situation has been created: this database includes an index of environmental laws and an index of waste laws.

The successes and experiences from these measures are regularly communicated to the CEE subsidiaries, with the aim of raising awareness of environmental protection issues and to incite them to launch similar initiatives. Moreover, future initiatives are planned in accordance with European standards and directives and Erste Bank also recommends their application in non-EU countries.

**Group-wide procurement**

The Procurement Services Company (s-proserv) was established as a new centralised Group unit for procurement and facility management. It took up its work on 1 January 2007. In addition to optimising costs and ensuring that services are of the highest quality, a Group-wide supply chain management system will be established; the ethical guidelines for this supply chain management system are currently being formulated.

Vienna, 6 March 2007

**Management Board**

**Andreas Treichl**  
Chairman of the Management Board

**Elisabeth Bleyleben-Koren**  
Deputy Chairwoman of the Management Board

**Reinhard Ortner**  
Member of the Management Board

**Franz Hochstrasser**  
Member of the Management Board

**Erwin Erasim**  
Member of the Management Board

**Bernhard Spalt**  
Member of the Management Board

**Balance Sheet as of 31 December 2006****Erste Bank der oesterreichischen Sparkassen AG****Assets**

	€	€	€ '000 previous year	€ '000 previous year
<b>1. Cash in hand and balances with central banks</b>		1,150,940,893.69		778,066
<b>2. Treasury bills and other bills eligible for refinancing with central banks:</b>	5,428,645,409.11		5,985,089	
a) Treasury bills and similar instruments eligible for refinancing with central banks				
b) other eligible bills for refinancing at central banks	0.00	5,428,645,409.11	0	5,985,089
<b>3. Loans and advances to credit institutions</b>	393,377,431.25		418,188	
a) repayable on demand				
b) other loans and advances	25,979,132,687.05	26,372,510,118.30	23,460,313	23,878,501
<b>4. Loans and advances to customers</b>		25,470,527,703.91		23,400,348

<b>5. Bonds and other fixed-interest securities</b>	1,131,403,811.65		1,137,205	
a) issued by public-sector issuers				
b) issued by other issuers	8,388,850,203.15	9,520,254,014.80	7,567,771	8,704,976
of which: own bonds	84,118,691.55		82.379	
<b>6. Shares and other variable-yield securities</b>		1,794,695,135.60		1,649,184
<b>7. Equity interest</b>		653,614,209.73		536,529
of which: credit institutions	449,032,583.09		442,497	
<b>8. Shares in associates and subsidiaries</b>		8,424,137,423.56		4,027,492
of which: credit institutions	7,517,451,761.38		3,227,080	
<b>9. Intangible fixed assets</b>		75,021,277.88		88,814
<b>10. Tangible assets</b>		86,844,343.25		97,462
of which: land and buildings used by the credit institution for its own activities	42,769,929.73		46,088	
<b>11. Own shares and shares in a controlling company</b>		44,053,221.10		1,995
of which: nominal value	1,516,462.00		85	
<b>12. Other assets</b>		4,517,715,246.34		4,894,359
<b>13. Subscribed capital that has been called up but not yet paid in</b>		0.00		0
<b>14. Prepaid expenses</b>		153,414,689.04		122,933
<b>Total assets</b>		83,692,373,686.31		74,165,748
<b>Supplementary items (off-balance sheet items)</b>				
1. Foreign assets		49,470,703,337.39		39,202,855

### Balance Sheet as of 31 December 2006

#### Erste Bank der oesterreichischen Sparkassen AG

#### Liabilities and equity

<b>1. Accounts owed to credit institutions</b>	
a) repayable on demand	
b) subject to an agreed term or period of notice	
<b>2. Accounts owed to customers</b>	
a) savings deposits	
of which:	
aa) payable on demand	
bb) subject to an agreed term or period of notice	
other	
b) other liabilities	
of which:	
aa) payable on demand	
bb) subject to an agreed term or period of notice	
<b>3. Debts evidenced by certificates</b>	
a) bonds issued	
b) other debts evidenced by certificates	
<b>4. Other liabilities</b>	
<b>5. Deferred income</b>	
<b>6. Provisions</b>	
a) provisions for severance payments	
b) provisions for pensions	
c) tax provisions	
d) other	
<b>6.A Fund for general banking risks</b>	

#### 7. Subordinated liabilities

#### 8. Supplementary capital

#### 9. Subscribed capital

#### 10. Capital reserves

- a) appropriated
- b) not appropriated
- c) treasury shares

#### 11. Revenue reserves

- a) statutory reserves
- b) reserves provided for by the Articles of Association
- c) other reserves
- d) reserves for treasury shares

#### Carry-over

€	€	€ '000 previous year	€ '000 previous year
1,084,492,091.04	34,418,270,599.43	2,087,277	31,536,739
33,333,778,508.39		29,449,462	
7,646,438,617.10	17,701,523,886.10	5,583,730	13,814,099
1,937,005,732.44		417,104	
5,709,432,884.66		5,166,626	
10,055,085,269.00		8,230,369	
5,206,164,008.62		5,659,585	
4,848,921,260.38		2,570,784	
11,033,699,717.92	15,709,887,383.75	10,827,410	17,124,291
4,676,187,665.83		6,296,881	
115,278,756.00	3,822,787,002.10	103,532	4,134,036
	105,866,095.91		122,894
	657,496,652.16		563,541
357,024,443.00		290,938	
5,307,642.43		8,001	
179,885,810.73		161,070	
4,589,686,000.00	0.00	1,491,446	0

	1,727,835,231.34	1,255,996	34,156,000.00	784,501,000.00	34,156	595,842
	2,471,078,220.04	2,125,137	0.00		0	
	630,592,370.00	486,367	706,291,000.00		559,691	
	4,589,686,000.00	1,491,446	44,054,000.00		1,995	
0.00		0		82,619,524,440.83		73,250,388
0.00		0				

**Balance Sheet as of 31 December 2006**

**Erste Bank der oesterreichischen Sparkassen AG**

**Liabilities**

**Carry-over**

**12. Reserve pursuant section 23 (6) Austrian Banking Act**

**13. Net profit**

**14. Untaxed reserves**

- a) valuation reserve resulting from special depreciation  
b) other untaxed reserves  
of which:  
aa) investment reserve pursuant to sec. 9 Austrian Income Tax Act of 1988  
bb) investment allowance pursuant to sec. 10 Austrian Income Tax Act of 1988  
cc) rent reserves pursuant to sec. 11 Austrian Income Tax Act of 1988  
dd) transfer reserve pursuant to sec. 12 Austrian Income Tax Act of 1988

**Total liabilities**

€	€	€ '000 previous year	€ '000 previous year
	82,619,524,440.83		73,250,388
	854,000,000.00		767,000
	205,035,245.48		133,917
13,814,000.00		14,443	
0.00	13,814,000.00	0	14,443
0.00		0	
0.00		0	
0.00		0	
0.00		0	
	83,692,373,686.31		74,165,748

**Supplementary items (off-balance sheet items)**

**1. Contingent liabilities**

- of which: acceptances and endorsements from  
a) rediscounted bills  
b) liabilities from guarantees and assets pledged as collateral security

**2. Commitments**

- of which: commitments from repurchase agreements

**3. Liabilities arising from fiduciary services**

**4. Qualifying capital pursuant to section 23**

- of which: qualifying capital pursuant to sec. 23 (14) (7)

**5. Capital requirement pursuant to section 22 (1)**

- of which: required qualifying capital pursuant to sec. 22 (1) (1) and (4)

**6. Foreign liabilities**

0.00	8,843,939,366.60	0	7,108,374
8,843,939,366.60		7,108,374	
0.00	8,798,256,574.85	0	8,354,165
	308,605,018.76		230,486
181,539,548.18	9,490,652,832.61	204,394	5,515,528
2,956,055,586.39	3,331,706,586.39	2,315,326	2,636,451
	35,492,510,005.74		33,434,144

**Income Statement 2006**

**Erste Bank der oesterreichischen Sparkassen AG**

income from shares in associates and subsidiaries

**4. Income from commissions**

**5. Expenses from commissions**

**1. Interest and similar income**

of which: from fixed-interest securities

**2. Interest and similar expenses**

**6. Net trading income**

**7. Other operating results**

**I. NET INTEREST INCOME**

**II. OPERATING INCOME**

**3. Income from securities and equity interests**

- a) income from shares, other ownership interests and variable-interest securities  
b) income from equity interests

**8. General administrative expenses**

- a) Personnel expenses  
of which:  
aa) wages and salaries



bb) expenses for statutory social contributions and compulsory contributions related to wages and salaries	844,184,077.15	2,728,470,391.71	693,017	2,189,498
		2,275,832,969.23		1,799,569
cc) other social benefits		<b>452,637,422.48</b>		<b>389,929</b>
dd) expenses for old-age provision and assistance	31,699,618.02	442,835,226.76	32,652	461,186
	24,297,955.58		19,971	
	386,837,653.16		408,563	
ee) allocation to provision for pension commitments		449,774,033.71		398,850
		155,387,971.98		101,915
ff) expenses for severance pay and contributions to employee welfare funds		109,568,440.19		103,207
		5,518,611.32		14,870
		<b>1,304,945,762.48</b>		<b>1,266,127</b>
b) other administrative expenses (non-staff operating expenses)	442,282,159.81	667,731,704.35	382,630	597,718
		51,782,374.89		57,947
	268,064,468.80		248,388	
	65,456,735.74		62,948	
	4,114,399.52		3,715	
	53,796,904.62		48,491	
	30,074,494.00		1,803	
	20,775,157.13		17,285	
	225,449,544.54		215,088	
		11,256,781.60		4,911
		<b>730,770,860.84</b>		<b>660,576</b>
		<b>574,174,901.64</b>		<b>605,551</b>

	€	€ '000 previous year	€ '000 previous year
Carry-over (IV. Net operating income)			
11. Value adjustments on claims and allocations to provisions for contingent liabilities and for credit risks			
12. Income from the release of value adjustments on loans and provisions for contingent liabilities and credit risks	574,174,901.64		605,551
13. Value adjustments on securities which are held as financial assets, as well as equity interests and holdings in associates and subsidiaries	250,348,260.78		273,649
	201,889,846.63		119,560
	32,071,010.89		61,082
	8,593,526.97		42,207
	<b>502,239,003.57</b>		<b>432,587</b>
14. Earnings securities which are held as financial assets, as well as equity interests and holdings in associates and subsidiaries			
<b>V. RESULTS FROM ORDINARY BUSINESS ACTIVITIES</b>			
15. Extraordinary result	0.00		0
of which: income from fund for general banking risks	0.00		0
16. Extraordinary expenses	11,757,763.11		11,758
of which: allocation to fund for general banking risks	0.00		0
17. Extraordinary income	- 11,757,763.11		- 11,758
	- 19,757,492.99		- 2,468
(subtotal of items 15 and 16)	30,338,185.82		1,068
	<b>479,900,547.63</b>		<b>422,229</b>
18. Taxes on income			
19. Other taxes not included under item 18			
<b>VI. NET INCOME</b>			
20. Movement in reserves	275,031,390.52		288,752
of which: addition to the reserve pursuant section 23 (6) Austrian Banking Act	87,000,000.00		136,296
	0.00		0
release from the reserve pursuant section 23 (6) Austrian Banking Act	<b>204,869,157.11</b>		<b>133,477</b>
<b>VII. PROFIT FOR THE YEAR</b>			
	166,088.37		440
21. Profit brought forward from previous year	0.00		0
	<b>205,035,245.48</b>		<b>133,917</b>
22. Appropriations because of profit transfer agreements			
<b>VIII. NET PROFIT</b>			

## Notes to the 2006 financial statements of Erste Bank AG

### I. General information

The 2006 financial statements of Erste Bank der oesterreichischen Sparkassen AG (Erste Bank) have been prepared in accordance with the regulations of the Austrian Commercial Code (UGB, Unternehmensgesetzbuch), in connection with the applicable provisions of the Austrian Banking Act (BWG, Bankwesengesetz).

Pursuant to section 59a BWG, Erste Bank also has prepared the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as of the same balance sheet date.

#### 1. Ongoing legal cases

##### Haftungsverbund

In 2002, Erste Bank formed the Haftungsverbund on the basis of a set of agreements with the majority of the Austrian Savings Banks. While the primary purpose of the Haftungsverbund is to establish a joint early-warning system as well as an enhanced deposit guarantee system of member Savings Banks, and to strengthen the Group's cooperation on the market, the Haftungsverbund agreements also had the effect that Erste Bank and the other member institutions qualify as a "group of credit institutions" pursuant to sec. 30 BWG.

This allows Erste Bank to consolidate the qualifying capital (in accordance with sec. 24 BWG) and the risk-weighted assets (in accordance with sec. 22 BWG) of the members of the Haftungsverbund.

The consolidation of the qualifying capital and risk-weighted assets of the members of the Haftungsverbund originally resulted in an increase in the Tier 1 ratio of the Erste Bank Group by approx. 55 basis points. Thus, even without the qualifying capital of the other members of the Haftungsverbund, Erste Bank complies with the statutory minimum levels of regulatory capital.

At the end of 2003, an Austrian competitor of Erste Bank alleged to the Austrian Financial Market Authority, the EU Commission and to the Austrian Federal Competition Authority that the formation of the Haftungsverbund between Erste Bank and a number of the other Austrian Savings Banks violates European competition and banking legislation.

Upon examination of the validity of the competitor's allegations, the Austrian Financial Market Authority concluded that it shall continue to apply section 30 (2a) of the Austrian Banking Act and confirmed that the Haftungsverbund qualifies as a group of credit institutions.

During the competition proceedings, the Austrian Federal Competition Authority and one competitor requested the Cartel Court to prohibit operation of the Haftungsverbund due to an alleged infringement upon the provisions of art. 81 of the EC Treaty. In July 2006, the Cartel Court handed down a preliminary ruling, which has not yet come into force. In this decision, the court held that the agreements which constitute the Haftungsverbund are for the most part in compliance with art. 81 of the EC Treaty, because, among other things, they are beneficial for consumers. This in particular refers to the joint market and business policy, the early-warning system and the enhanced deposit guarantee system.

On the other hand, the Cartel Court held that individual provisions (specifically concerning the fact that competition-critical information flows from the Savings Banks to Erste Bank and not only to the s-Haftungs- und Kundenabsicherungs GmbH, which is authorised to receive such information) essentially serve to restrict competition.

As this is merely a preliminary ruling, the Cartel Court has not formulated any conclusions and consequences of its findings, which would need to be implemented by Erste Bank and the other parties. The Cartel Court itself has deliberately refrained from making any judgment in the case.

This decision by the Cartel Court does not affect the validity of the consolidation of the qualifying capital of the members of the Haftungsverbund. However, it cannot be ruled out that the Cartel Court will stipulate measures that cannot be reconciled with the Group's and the bank's reporting duties under statutory law.

Erste Bank (and the other members of the Haftungsverbund) are currently developing alternative solutions, to be implemented if this situation should arise.

In order to quickly resolve these proceedings, Erste Bank, together with some other members of the Haftungsverbund, filed an application with the Austrian Cartel Court in December 2004 for a declaratory decision as to whether the Haftungsverbund qualifies as a "Zusammenschluss" (merger) within the meaning of the Austrian Cartel Act.

In November 2005, this application was complemented by a supplementary agreement that was concluded as a test case between Erste Bank, s-Haftungs- und Kundenabsicherungs GmbH and one Savings Bank. On 9 November 2006, the Cartel Court ruled, in a judgment that is very advantageous to Erste Bank, that the conclusion of the supplementary agreement of November 2005 constitutes a merger within the meaning of the Austrian Cartel Act. The Federal Competition Authority appealed the ruling of the Cartel Court. A final decision of the Austrian Supreme Court, as the competent court of appeal, is not expected before mid-2007.

If the Austrian Supreme Court upholds the ruling of the Cartel Court, Erste Bank will conclude corresponding supplementary agreements to the Haftungsverbund with all interested Savings Banks. Once the formal authorisations of the competition authorities have been obtained, the participating Savings Banks and Erste Bank will be considered as one business unit under cartel law. The result of this (following the rulings of the European Courts in the Viho case) is that the internal relations between Erste Bank and the participating Savings Banks will be exempted from competition rules.

##### Austrian Cartel Court ruling on Central European acquisitions

In 2005, Erste Bank applied to the Austrian Cartel Court for a declaration that the acquisitions of majority interests in Česká spořitelna a. s., Slovenská spořitelna a. s., Postabank and Rijecka Banka between 2000 and 2003 were not subject to Austrian merger control requirements.

In March 2006 the Austrian Supreme Court ruled that the acquisition of Postabank and Rijecka Banka, as well as the acquisition of Ceska sporitelna a. s. and Slovenska sporitelna a. s. were exempt from the registration requirement pursuant to sec. 41 ff of the Austrian Cartel Act, as had been decided by the Cartel Court of the first instance. As a precautionary measure, Erste Bank formally registered the acquisitions during the proceedings and obtained the respective authorisations in October 2005.

##### "Lombard" proceedings:

With the ruling of December 2006, the court of the first instance of the European Communities dismissed the action by Erste Bank to have the so-called "Lombard" decision of the EU Commission repealed. At the same time, the court confirmed the administrative fine of EUR 37.7 million, which had been imposed in 2002 by the EU Commission. Erste Bank has appealed this decision before the Court of Justice of the European Communities. Erste Bank has already paid the administrative fine in full as early as 2002.

##### State aid Erste Bank Hungary

As mentioned in previous financial reports, the European Commission has brought a formal preliminary investigation against Hungary in its effort to examine state subsidies of accession countries. This was done due to concerns over the

compatibility of a "liability guarantee for unknown claims" given by the State of Hungary vis-à-vis Erste Bank with the Acquis Communautaire of art. 88 (2) of the EC Treaty. This investigation, in which Erste Bank participates as an affected third party, is still pending and no decision has been taken as yet.

Erste Bank expects that the findings of this investigation will not have any significant repercussions for Erste Bank, especially since no "unknown claims" have been made since the acquisition of Postabank.

#### **Ruling of the Austrian Supreme Court concerning the adjustment of interest rates in savings accounts**

In a ruling announced in January 2006, the Austrian Supreme Court declared that certain clauses used by an Austrian competitor in his terms and conditions for passbook savings accounts were unlawful. One of these clauses deals with the right of the credit institution to change the interest rate for savings deposits. This clause is not only used by the competitor, but by most Austrian credit institutions, including Erste Bank. According to the ruling of the Supreme Court, a credit institution may not adjust the interest rate for savings deposits unilaterally and in the absence of other conditions, which were defined in more detail, unless such adjustment is reasonable, in particular because the change is only minor and objectively justified.

In public statements, consumer protection organisations argue that as a result of this landmark decision there not only exists a duty on the part of the affected credit institutions to change the interest rate adjustment clause used until now for savings passbooks, but also consider that this ruling provides the grounds for a review whether past adjustments of interest rates on savings deposits were objectively justified, including the possibility for consumers to make claims against credit institutions retroactively. Consumer protection organisations have declared that they expect Austrian credit institutions to honour justified claims from customers for adjustments in their savings deposit rate, and that, if this was not done, they would bring further court action about interest fixing for savings passbooks that would serve as test cases.

## **2. Letter of comfort**

A letter of support exists between Erste Bank and Die Zweite Wiener Vereinsspar-Casse (hereinafter "Die Zweite"), under which Erste Bank guarantees that "Die Zweite" will meet the requirements of banking regulations, especially those concerning qualifying capital. This guarantee obligation is recorded in the balance sheet as a memorandum item of a value of EUR 1.00, as it is not possible to determine the liability from this agreement.

## **II. Notes on accounting and valuation methods**

**1) The financial statements have been prepared in accordance with generally accepted accounting principles** and according to the principle that the financial statements should give a fair and accurate view of the financial position and results of operations. The principle of individual measurement was applied in the assessment of the company's assets and liabilities, and it was assumed that the company would continue to operate. The particularities of the banking business were taken into account in the application of the principle of prudence.

**2) Receivables and liabilities in foreign currency** were valued at the ECB reference rate of 29 December 2006. Foreign currencies were valued at their purchase rate on the balance sheet date. All non-euro currencies are considered foreign currencies.

**3) Equity interests and shares in associates and subsidiaries** were recognised at cost of acquisition. Where permanent impairments have resulted from sustained losses or other circumstances, valuations were revised downward accordingly. Where necessary, sufficient provisions were established to cover against the loss incurred by the subsidiaries.

**4) For bonds and other fixed-interest securities**, the difference between acquisition cost and redemption value is amortised pro rata temporis in accordance with sec. 56 (2) BWG, or recognised as income pro rata temporis over the residual time to maturity until redemption in accordance with sec. 56 (3) BWG. Securities in the trading portfolio and other current asset securities are assessed in accordance with the current value principle pursuant to sec. 207 UGB and sec. 56 (5) BWG.

**5) Loans and advances to credit institutions and customers, bills of exchange and other assets** were assessed in accordance with sec. 207 UGB. Appropriate impairment adjustments have been made to account for recognisable risks. Write-ups have been made from the reversal of value adjustments. Loans to private persons were valued in consideration of statistical risk factors, and provisions in the form of portfolio corrections have been made where applicable. Receivables from borrowers in high-risk countries have been assessed conservatively in consideration of the opinion of the Expert Senate for Commercial Law and Auditing (Fachsenat für Handelsrecht und Revision) of the Chamber of Tax Advisors and Certified Accountants (Kammer der Wirtschaftstreuhänder).

**6) Intangible assets and tangible fixed assets** were valued at cost of purchase or production less planned depreciation/amortisation and less impairment adjustments. Straight-line depreciation was employed where planned. The useful life for buildings is 25 to 50 years, for fixtures and fittings 5 to 20 years; the amortisation period for intangible assets is 4 to 15 years. Capitalised goodwill is written off over 5 to 15 years. Small value assets were fully written off in the year in which they were obtained.

**7) Debts evidenced by certificates and subordinated liabilities** were recognised in the balance sheet with their repayment values or the pro rata annual values (zero coupon bonds).

**8) Costs of issues of securities** were expensed immediately; **premiums and discounts on issues** were amortised over the term of the debt.

**9) Provisions** were made in the amounts deemed necessary in standard commercial practice.

The **provisions for employer pension plans** for those in retirement were measured according to IFRS principles on the basis of an actuarial expertise. The entitlements to pensions were measured in accordance with IAS 19 using the Projected Unit Credit Method and in application of the corridor method. In the reporting year, the parameters used in calculations were adapted as follows to take into account the changed market conditions: the discount rate was lowered from 5.5% to 4.5%, the collective agreement salary increase trend was increased from 1.5% to 2.0% and the ordinary wage schedule trend was reduced from 1.5% to 1.0% as a result of the introduction of a new salary system. The result has been increased by flat 5.0% to anticipate the new mortality tables that are not available yet; this increase is based on the AVÖ 1999 P-Rechnungsgrundlagen (the actuarial basis for pension insurance of the Austrian Association of Actuaries).

The pension liabilities of Erste Bank employees who were in active employment on 31 December 2006 and those who have entered retirement since 1 January 1999, who have been given definitive status or have vested rights to old pension, have been transferred to VBVB-Betriebliche Altersvorsorge AG. The resulting difference between the coverage capital transferred to the pension fund since 1998 and the existing pension provision formed for these assets has been disclosed under deferred expenses in accordance with the transitional provisions of section XII of the Austrian Pension Fund Act and will be amortised over a period of ten years.

The severance payment provision has been measured in accordance with IFRS principles on the basis of an actuarial expertise. Entitlements for severance payments have been measured in accordance with IAS 19 using the Projected

Unit Credit Method. In the reporting year, the parameters used in calculations have been adapted as follows to take into account the changed market conditions: the discount rate was lowered from 5.5% to 4.5%, the collective agreement salary increase trend was increased from 1.5% to 2.0% and the ordinary schedule trend was reduced from 1.5% to 1.0%. The provisions made fulfil the requirements of sec. 211 (2) UGB.

The provision for anniversary bonuses was measured in the same way as the severance payment provision.

**10) Trust funds are stated in the balance sheet in accordance with sec. 48 (1) BWG.**

**11) In derivatives trading** the assets and liabilities were valued as follows:

Hedging products and their underlyings were shown in the balance sheet as a unit. Interest income and expense from other instruments of the banking book (strategic positions) were recognised pro-rata in the Income Statement. Negative market values are recognised as losses, while positive market values are not recognised. Trading portfolios were valued "mark to market".

### III. Notes on the Balance Sheet

#### 1) Maturity structure of loans and advances as well as liabilities to credit institutions and customers, respectively (by residual period):

##### a) Loans and advances

(in EUR million)	31/12/2005	31/12/2006
<i>Loans and advances to credit institutions</i>	23,879	26,372
up to 3 months	16,115	18,095
more than 3 months to 1 year	4,971	4,605
more than 1 year to 5 years	1,573	2,450
more than 5 years	802	829
payable upon demand	418	393
<i>Loans and advances to customers</i>	23,400	25,471
up to 3 months	4,332	5,623
more than 3 months to 1 year	1,831	1,913
more than 1 year to 5 years	5,382	6,142
more than 5 years	10,834	10,706
payable upon demand	1,021	1,087

##### b) Amounts owed

(in EUR million)	31.12.2005	31.12.2006
<i>Amounts owed to credit institutions</i>	31,537	34,418
up to 3 months	26,352	29,107
more than 3 months to 1 year	1,745	1,415
more than 1 year to 5 years	629	973
more than 5 years	724	1,839
payable upon demand	2,087	1,084
<i>Amounts owed to customers</i>	13,814	17,702
<i>Savings deposits</i>		
up to 3 months	146	253
more than 3 months to 1 year	403	1,236
more than 1 year to 5 years	792	1,059
more than 5 years	3,768	3,162
payable upon demand	474	1,937
<i>Other</i>		
up to 3 months	2,129	4,182
more than 3 months to 1 year	121	319
more than 1 year to 5 years	1	31
more than 5 years	320	317
payable upon demand	5,660	5,206
<i>Debts evidenced by certificates</i>	17,124	15,710
up to 3 months	4,029	2,297
more than 3 months to 1 year	2,507	2,312
more than 1 year to 5 years	4,914	6,056
more than 5 years	5,674	5,045
payable upon demand	0	0

For the savings deposits, the residual periods was calculated based on the average holding period.

#### 2) The amounts for bonds due within one year

As of 31/12/2006 **bonds and other fixed-interest securities** for Erste Bank maturing in the year following the balance sheet date amounted to EUR 1,311.7 million (EUR 1,010.0 million in previous year).

As of 31/12/2006 **debt securities** with analogous maturities amounted to EUR 4,729.9 million (EUR 6,616.7 million in previous year).

#### 3) Assets and liabilities in foreign currencies (in EUR million)

	Fixed assets		Liabilities	
	31/12/2005	31/12/2006	31/12/2005	31/12/2006
Total of Erste Bank as a whole	26,892	30,132	22,073	26,460

Foreign currencies are all currencies other than the euro.

#### 4) Advances and loans as well as amounts owed to subsidiaries and companies in which equity interests are held (in EUR million)

	Advances and loans to subsidiaries		Advances and loans to companies in which equity interests are held	
	31/12/2005	31/12/2006	31/12/2005	31/12/2006
Loans and advances to credit institutions	6,986	9,358	3,763	3,766
Loans and advances to customers	2,165	3,142	645	476
Bonds and other fixed-interest				

securities	258	288	1,012	694
Shares and other fixed-interest securities	159	218	101	96
	Amounts owed to subsidiaries		Amounts owed to companies in which equity interests are held	
	31/12/2005	31/12/2006	31/12/2005	31/12/2006
Amounts owed to credit institutions	2,287	1,409	3,479	2,215
Amounts owed to customers	418	620	204	198

Among these the most important companies are:

Loans and liabilities to subsidiaries:

Tiroler Sparkasse Bankaktiengesellschaft, Innsbruck  
 Erste Bank Hungary Rt, Budapest  
 Salzburger Sparkasse Bank AG, Salzburg  
 Banca Comerciala Romana SA, Bucharest

Loans and liabilities to companies, in which equity interests are held:

Sparkasse Kremstal-Pyhrn AG, Kirchdorf a.d.Krems  
 Kärntner Sparkasse AG, Klagenfurt Allgemeine  
 Sparkasse Oberösterreich Bank AG, Linz  
 Steiermärkische Bank und Sparkassen AG, Graz

Amounts owed to subsidiaries:

Salzburger Sparkasse Bank AG, Salzburg  
 s Wohnbaubank AG, Vienna  
 Tiroler Sparkasse Bankaktiengesellschaft,  
 Innsbruck  
 s Versicherung AG, Vienna

Amounts owed to companies in which equity interests are held:

Kärntner Sparkasse AG, Klagenfurt Allgemeine  
Sparkasse Oberösterreich Bank AG, Linz  
Steiermärkische Bank und Sparkassen AG, Graz

#### 5) Subordinated assets (in EUR million)

	31/12/2005	31/12/2006
a) Loans and liabilities to credit institutions	190	348
of which:		
to subsidiaries	182	320
to companies in which equity interests are held	7	7
b) Loans and liabilities to customers	122	116
of which:		
to subsidiaries	33	9
to companies in which equity interests are held	1	1
c) Bonds and other		
fixed-interest securities	222	256
of which:		
to subsidiaries	20	20
to companies in which equity interests are held	0	0

#### 6) Fiduciary business

The above items include fiduciary business in the amount of:

Loans and advances to credit institutions                      EUR 18.0 million (31/12/2005 EUR 16.8 million )  
Loans and advances to customers                                    EUR 30.7 million (31/12/2005 EUR 31.1 million )  
Amounts owed to credit institutions                                EUR 48.7 million (31/12/2005 EUR 47.9 million )

#### 7) Equity interests and holdings in associates and subsidiaries

A detailed breakdown of material equity interests and holdings in associates and subsidiaries is disclosed in the Notes "Holdings of Erste Bank as of 31/12/2006".

#### 8) Securities

##### a) Breakdown of securities listed for trade on the stock exchange (in EUR million)

(pursuant to sec. 64 (1) (10) Austrian Banking Act)	listed		not listed	
	31/12/2005	31/12/2006	31.12.2005	31.12.2006
a) Bonds and other fixed-interest securities	7,213	8,038	1,492	1,482
b) Shares and other variable-interest securities	302	648	125	164
c) Equity interests	42	51	0	0
d) Holdings in associates and subsidiaries	108	189	0	0
<b>Total</b>	<b>7,665</b>	<b>8,926</b>	<b>1,617</b>	<b>1,646</b>
(pursuant to sec. 64 (1) (11) Austrian Banking Act)	Fixed assets		Current assets	
	31/12/2005	31/12/2006	31/12/2005	31/12/2006
a) Bonds and other fixed-interest securities	6,292	6,531	2,413	2,989
b) Shares and other fixed-interest securities	75	94	352	718
<b>Total</b>	<b>6,367</b>	<b>6,625</b>	<b>2,765</b>	<b>3,707</b>

Allocation pursuant to section 64 (1) (11) Austrian Banking Act was in accordance with the organisational guidelines adopted by the Management Board with the long-term assets comprising the positions built up under strategic aspects of long-term profitable investment. The difference to the redemption value resulting from the pro-rata write-downs pursuant to section 56 (2) Austrian Banking Act amounts to EUR 70.7 million (previous year: EUR 107.1 million), while the difference to the redemption value from the pro-rata write-ups pursuant to section 56 (3) Austrian Banking Act amounts to EUR 19.0 million (previous year: EUR 12.4 million).

**b) Break-down of the differences of the securities listed for trade in the stock exchange not held as long-term assets (in EUR million)**

	31.12.2005	31.12.2006
Difference between the higher market value recognised on the balance sheet date and the cost of purchase pursuant to section 56 (5) Austrian Banking Act	123	100

**c) Repurchase agreements**

The carrying value of the assets subject to sale and repurchase agreements amounts to as of balance sheet date  
EUR 4,172.4 million (previous year: EUR 4,700.9 million) on the balance sheet date.

**d) Break-down of bonds and other fixed-interest securities (in EUR million)**

	31/12/2005	31/12/2006
issued by public-sector issuers	1,137	1,131
issued by other issuers	7,568	8,389
of which:		
own issues	82	84
domestic bonds credit institutions	890	949
foreign bonds credit institutions	2,723	3,084
mortgage bonds and municipal bonds	603	572
convertibles	113	27
other bonds	3,157	3,673

**9) Trading book**

Erste Bank throughout the fiscal year kept a trading book within the meaning of sec. 22b BWG. The **securities portfolio** apportioned to the trading book (incl. capitalised option premiums and pension transactions not recognised in the balance sheet) was of a total of EUR 5,784.8 million on 31 December 2006 (EUR 3,865.6 million in the previous year).

Exercising the option of sec. 22 lit. b BWG, **money market instruments** of a total volume of EUR 19,903.9 million (EUR 19,279.3 million on 31 December 2005) were apportioned to the trading book on 31 December 2006.

The volume of **other financial instruments** included in the trading book had a notional value of EUR 300,218 million on 31 December 2006, compared to EUR 224,129 million in the previous year, and was distributed as follows:

(EUR millions)	Long position		Short position		Total	
	2005	2006	2005	2006	2005	2006
Options	6,412	4,397	7,481	5,101	13,893	9,498
Caps and Floors	25,917	54,283	25,186	50,552	51,103	104,835
Currency swaps	25,868	30,424	0	0	25,868	30,424
Interest swaps	121,916	150,751	0	0	121,916	150,751
Forward Rate Agreements	2,556	127	2,580	340	5,136	467
Financial Futures	3,074	919	3,139	3,324	6,213	4,243
<b>Total</b>	185,743	240,901	38,386	59,317	224,129	300,218

Please note: Interest and currency swaps are depicted as unilateral (purchase), all other products as bilateral.

**10) Tangible and intangible assets**

The consolidated statement of changes in fixed assets in accordance with sec. 226 (1) UGB is disclosed separately in the attachment to the Notes.

The carrying value of the developed land was EUR 13.0 million as of 31 December 2006 (EUR 13.1 million in the previous year).

Leased assets were not included in the carrying value of 31 December 2006.

For the next fiscal year, Erste Bank will have expenses from the use of tangible assets not capitalised in the balance sheet (rental and leasing contracts) of a total of EUR 32.5 million (EUR 29.4 million in the previous year), and of a total of EUR 179.3 million for the next five fiscal years (EUR 162.6 million in the previous year).

The intangible fixed assets item includes assets of a value of EUR 52.0 million (EUR 62.7 million in the previous year) that have been acquired from a subsidiary. In the reporting year, EUR 15.7 million worth of such assets were acquired (EUR 13.1 million in the previous year).

**11) Deferred expenses**

All in all, deferred expenses have increased to EUR 153.4 million by the balance sheet date of 31 December 2006 (EUR 122.9 million in the previous year).

The remaining difference between the coverage requirement of the pension fund and the pension provision for transfers of pension entitlements of active employees since 1998 was recognised under deferred expenses on 31 December 2006, at a total of EUR 7.8 million (EUR 14.7 million in the previous year). The difference will be amortised in 10 equal annual instalments as of the year of transfer. Section II. 9 of these Notes shows details on the transfer of employer pension plans.

The pension provision gap in accordance with art. X (3) RLG will be recognised pro-rata as an expense. This amount totalling EUR 24.4 million will be amortised in equal instalments over the next five years.

As of the 2005 reporting year, the pension provision, severance payment provision and the provision for anniversary bonuses are measured in accordance with IAS 19 principles. The increase was disclosed under deferred expenses on 31 December 2006 at an amount of EUR 75.3 million, and will be amortised in 5 equal annual instalments starting with the 2005 reporting year.

**12) Other assets (EUR millions)**

	31/12/2005	31/12/2006
Total:	4,894	4,518
of which from securities transactions	2,813	2,020
of which from derivative products	779	1,135
of which from recognised interest and commission income	662	736



of which from receivables from equity interests and subsidiaries	424	525
--	-----	-----

**13 ) Debt securities in issue (EUR millions)**

	31/12/2005	31/12/2006
Total:	17,124	15,710
of which consolidated loans and bank bonds	96	96
of which non-consolidated loans and bank bonds	12,140	11,460
of which mortgage bonds and local government bonds	765	1,079
of which certificates of deposit and commercial paper	4,059	2,899

**14 ) Other liabilities (EUR millions)**

	31/12/2005	31/12/2006
Total:	4,134	3,823
of which from derivative products	702	1,027
of which from investment transactions	2,836	2,081
of which from interest and commission expenses	465	511

**15) Provisions (EUR millions)**

	31/12/2005	31/12/2006
Provision for severance payments	104	115
Pension provision	291	357
Tax provision	8	5
Risk provision	72	80
Other	89	100
<b>Total</b>	<b>564</b>	<b>657</b>

The increase in the **pension provision** in the reporting year by EUR 66 million is the result of a reversal of provisions of EUR 3 million offset by an allocation to provision of EUR 69 million from changes in parameters of the valuation method described in section II. 9 of these Notes. The severance payment provision has increased by EUR 11 million: this is in part also the result of the change in the parameters used for valuation, with EUR 5 million, as well as allocation requirements of EUR 6 million.

**16) Subordinated debt**

Total subordinated debt on 31 December 2006 was EUR 4,199.0 million (EUR 3,381.1 million in the previous year), of which EUR 1.0 million are attributed to 14,281 GIRO CREDIT profit participating certificates (unchanged at the end of 2004) issued in 1984 (participation rights in accordance with sec. 174 AktG). The profit participating certificates guarantee a share in earnings, but not in equity, and do not give the holder voting rights.

Of the subordinated loans taken by Erste Bank in the balance sheet year (including supplementary capital), one issue (Erste Bank Sub.Ord. FRN 2006-2017/D.349, interest rate 3.903%, par value EUR 500,000,000.00) is above the 10 percent limit (EUR 419.9 million) of the total subordinated debt.

Movements in total subordinated debt have been as follows:

Increase due to new issues	EUR 984.4 million
Decrease due to maturity	EUR 119.1 million
Carrying value reductions caused by price fluctuations	EUR 47.4 million

On the balance sheet date, the bank held no own issues from subordinated debt that were not listed on stock exchanges.

In 2006, Erste Bank expenses for subordinated liabilities and supplementary capital was EUR 170.7 million (EUR 151.2 million in the previous year).

The term "subordinated" is defined in sec. 45 (4) and sec. 51 (9) BWG.

**17) Subscribed capital**

Subscribed capital was EUR 630.6 million on 31 December 2006 (previous year: EUR 486.4 million) and was represented by 315,296,185 voting bearer shares (ordinary shares).

**Capital increases in 2006****Capital increase January / February 2006:**

Pursuant to art. 4.4 of the articles of association, the Management Board was authorised to increase the company's share capital by issuing up to 80,000,000 shares of a total par value of EUR 160,000,000.00. As per the decision of the Management Board and the Supervisory Board of 25 January 2006, this authority was exercised and 58,953,600 bearer shares issued at a total par value of EUR 117,907,200.00. The public offer period of these shares lasted from 11 January 2006 to 26 January 2006; after the end of the offer period on 26 January 2006, the final subscription price was fixed at EUR 45.00 and published after the close of the stock exchange. Of the total revenue from the issue of EUR 2,652,912,000.00, EUR 117,907,200.00 were recognised as share capital and EUR 2,535,004,800.00 as capital reserves. In this capital increase, Erste Bank exercised its over-allotment option and issued an additional 5,895,360 shares at a total par value of EUR 11,790,720.00. From the total cash flow generated by the exercise of the over-allotment option of EUR 265,291,200.00, EUR 11,790,720.00 were recognised as share capital and EUR 253,500,480.00 as appropriated capital reserves.

**Capital increase through exchange of BCR share held by employees:**

Once again applying art. 4.4. of the articles of association, the Management Board resolved on 29 August 2006, based on the resolution of the Annual General Meeting on 19 May 2006, to increase the share capital with authorised capital against non-cash contributions under exclusion of shareholders' subscription rights. In this landmark decision, the Management Board set out the formula to calculate the ratio of the new Erste Bank shares to the BCR shares held by employees of Banca Comerciala Romana S.A., Romania ("BCR"), as well as the ceiling of the capital increase and the limit of the new shares to be issued.

In the resolution of the Management Board of 12 September 2006, the issue price of Erste Bank shares was fixed at EUR 45.91 and the exchange ratio of BCR employee shares to one Erste Bank share set at 6:1.

During the BCR employee initiative, 37,723,416 BCR shares were exchanged for 6,287,236 Erste Bank shares at a ratio of 6:1. Of the total revenue from the issue totalling EUR 288,647,004.76, EUR 12,574,472.00 were recognised as share capital and EUR 276,072,532.76 as capital reserves.

87,059 options were exercised under **MSOP 2002** (exercise window April 2006), resulting in subscriptions of 348,236 bearer shares at an issue price of EUR 16.50. The proceeds from the issue of EUR 5,745,894.00 plus EUR 3,501,807.20 from the difference between the issue price of EUR 16.50 and the price on the value date of 26 May 2005 of EUR 45.85 for 119,312 shares subscribed by Erste Bank AG employees, passed to the account of Income Statement position 8a (personnel expenses), totalled EUR 9,247,701.20; of this, EUR 696,472.00 were allocated to the share capital and EUR 8,551,229.20 were allocated to capital reserves. 20,838 options were exercised for the first tranche (of which 14,170 by

managers and 6,668 by other employees). 25,624 options were exercised for the second tranche, of which 13,100 by managers and 12,524 by other employees; 40,597 options were exercised for the third tranche, of which 1,000 by board members, 28,050 by managers and 11,547 by other employees. The difference between the exercise price (EUR 16.50) and the closing price of Erste Bank shares on the respective dates (EUR 45.85) was EUR 29.35 for all three tranches.

The exercise price of the individual options (the average of all closing prices in March 2002, rounded down to the nearest half euro) was EUR 66.00 which, taking account of the stock split carried out in the meantime (1:4), resulted in a value of EUR 16.50 per share. The estimated value of the individual options on the balance sheet date (31 December 2006) was EUR 41.82 for options credited in 2002, EUR 41.87 for options credited in 2003 and EUR 41.88 for options credited in 2004.

**In the first exercise window of MSOP 2005** (2 May to 12 May 2006), 85,855 options were exercised, resulting in the subscription of 85,855 bearer shares at an issue price of EUR 43.00. The proceeds from the issue of EUR 3,691,765.00 plus EUR 99,493.50 from the difference between the issue price of EUR 43.00 and the price on the value date of 26 May 2006 of EUR 45.85 for 34,910 shares subscribed by Erste Bank AG employees, passed to the account of Income Statement position 8a (personnel expenses), totalled EUR 3,791,258.50; of this, EUR 171,710.00 were allocated to the share capital and EUR 3,619,548.50 were allocated to capital reserves. The difference between the exercise price (EUR 43.00) and the closing price of Erste Bank shares on the respective dates (EUR 45.85) was EUR 2.85 for all three tranches.

9,430 options were exercised **in the second exercise window** (1 August to 11 August 2006), resulting in the subscription of 9,430 bearer shares at an issue price of EUR 43.00. The proceeds from the issue of EUR 405,490.00 plus EUR 7,007.00 from the difference between the issue price of EUR 43.00 and the price on the value date of 25 August 2005 of EUR 45.86 for 2,450 shares subscribed by Erste Bank AG employees, passed to the account of Income Statement position 8a (personnel expenses), totalled EUR 412,497.00; of this, EUR 18,860.00 were allocated to the share capital and EUR 393,637.00 were allocated to appropriated capital reserves. The difference between the exercise price (EUR 43.00) and the closing price of Erste Bank shares on the respective dates (EUR 45.86) was EUR 2.86 for all three tranches.

53,344 options were exercised **in the third exercise window** (2 November to 17 November 2006), resulting in the subscription of 53,344 bearer shares at an issue price of EUR 43.00. The proceeds from the issue of EUR 2,293,792.00 plus EUR 279,104.10 from the difference between the issue price of EUR 43.00 and the price on the value date of 1 December 2006 of EUR 55.45 for 22,418 shares subscribed by Erste Bank AG employees, passed to the account of Income Statement position 8a (personnel expenses), totalled EUR 2,572,896.10; of this, EUR 106,688.00 were allocated to the share capital and EUR 2,466,208.10 were allocated to capital reserves. The difference between the exercise price (EUR 43.00) and the closing price of Erste Bank shares on the respective dates (EUR 55.45) was EUR 12.45 for all three tranches.

All 148,629 options exercised in fiscal year 2006 under MSOP 2005 were for the first tranche: 12,000 were exercised by board members, 78,910 by managers and 57,719 by other employees. The estimated value of the individual options on the balance sheet date (31 December 2006) was EUR 20.22 for options credited in 2005 and EUR 21.93 for options credited in 2006.

479,524 shares at a price of EUR 39.00 were subscribed to between 8 and 19 May 2006 under **ESOP 2006**. The proceeds from the issue of EUR 18,701,436.00 plus EUR 887,785.92 from the difference between the issue price of EUR 39.00 and the price on the value date (1 June 2006) of EUR 44.88 for 150,984 shares subscribed by Erste Bank AG employees, passed to the account of Income Statement position 8a (personnel expenses), totalled EUR 19,589,221.92; of this, EUR 959,048.00 were allocated to the share capital and EUR 18,630,173.92 were allocated to appropriated capital reserves.

#### 18) Employee stock ownership programme and management stock option programme:

**MSOP 2002:** MSOP comprises a maximum of 4,400,000 ordinary shares of Erste Bank after the stock split, represented by 1,100,000 options. The distribution of options actually allocated to Management Board members, managers and entitled employees of the Erste Bank Group can be seen in the tables below.

**Conditions:** each of the options, which are granted free of charge, entitles the holder to subscribe to four shares; the transfer of options inter vivos is not permitted. Options of the 2002 round were credited to recipients' securities portfolios in three tranches: to Management Board members and other managers on 24 April 2002, 1 April 2003 and 1 April 2004; to performance leaders among employees on 1 June 2002, 1 June 2003 and 1 June 2004. The exercise price for all three tranches was set at the average quoted price of Erste Bank shares in March 2002 (rounded down to the nearest half euro), which was EUR 66.00 per share. After the stock split performed in July 2004, the exercise price remains at EUR 66.00. This means that each option confers the right to purchase four shares of Erste Bank for a total of EUR 66.00, equivalent to a subscription price of EUR 16.50 per share. The option term starts on the delivery date (the date on which the options are credited to the option account) and ends on the value date of the exercise window (described below) of the fifth calendar year after the delivery date. Every year, declarations to exercise may be submitted beginning on the day after publication of the preliminary consolidated net profit for the most recent completed fiscal year, but no earlier than 1 April and no later than 30 April: this period represents the exercise window. It is followed by the lockup period, which ends on the value date of the year following the exercise of the option. No more than 15 percent of the purchased shares may be sold during the lockup period.

**MSOP 2005:** the MSOP comprises a maximum of 2,000,000 ordinary shares of Erste Bank, represented by 2,000,000 options. The distribution of options actually allocated to Management Board members, managers and entitled employees of the Erste Bank Group can be seen in the tables below.

**Conditions:** each of the options, which are granted free of charge, entitles the holder to subscribe to one share; the transfer of options inter vivos is not permitted. The options granted in 2005 are delivered to Management Board members and other management on 1 June 2005; to performance leaders among employees they are delivered in three tranches on the following dates: 1 September 2005, 1 September 2006 and 31 August 2007. Options are credited to recipients' securities accounts in three tranches on the following dates: 1 September 2005, 1 September 2006 and 31 August 2007. The exercise price for all three tranches was set at the average quoted price of Erste Bank shares in April 2005 (enhanced by a 10% premium and rounded down to the nearest half euro), which was EUR 43.00 per share. The option term starts on the allocation date and ends on the value date of the last exercise window of the fifth calendar year after the delivery date. Every year, declarations to exercise may be submitted within 14 days of the day of publication of the quarterly results for the first to third quarters of each fiscal year (three exercise windows). It is followed by the lockup period, which ends one year after the value date of the share purchase. No more than 25% of the purchased shares may be sold during the lockup period.

Among the entitled persons, the allocated and exercised options under **MSOP 2002** are distributed as follows:

	2002	2003	2004	total:	of which exercised
Andreas Treichl	4,000	4,000	4,000	12,000	12,000
Elisabeth Bleyleben-Koren	4,000	4,000	4,000	12,000	12,000
Reinhard Ortner	4,000	4,000	4,000	12,000	12,000
Franz Hochstrasser	4,000	4,000	4,000	12,000	12,000
Erwin Erasim	4,000	4,000	4,000	12,000	12,000
Bernhard Spalt since 1/11/2006	1,000	1,000	1,000	3,000	1,200

Christian Coreth until 31/10/2006	1,000	1,000	1,000	3,000	3,000
Therefore, total board members:	22,000	22,000	22,000	66,000	64,200
Managers	172,200	182,800	214,000	569,000	473,497
Employees	92,271	115,729	94,891	302,891	249,327
Total of options credited:	286,471	320,529	330,891	937,891	787,024
Among the eligible persons, the granted, allocated and exercised options under <b>MSOP 2005</b> are distributed as follows:					
	granted in 2005	allocated in 2005	allocated in 2006	allocated in total	of which exercised
Andreas Treichl	9,000	3,000	3,000	6,000	3,000
Elisabeth Bleyleben-Koren	9,000	3,000	3,000	6,000	0
Reinhard Ortner	9,000	3,000	3,000	6,000	3,000
Franz Hochstrasser	9,000	3,000	3,000	6,000	3,000
Erwin Erasim	9,000	3,000	3,000	6,000	3,000
Bernhard Spalt since 01/11/2006	3,000	1,000	1,000	2,000	0
Christian Coreth until 31/10/2006	9,000	3,000	3,000	6,000	0
Therefore, total board members:	57,000	19,000	19,000	38,000	12,000
Managers	685,500	228,500	213,000	441,500	78,910
Employees	219,810	219,810	230,211	450,021	57,719
Total options:	962,310	467,310	462,211	929,521	148,629

#### 19) Authorised but unissued capital and contingent capital remaining on 31 December 2006:

In accordance with articles 4.4., 4.4.1 and 4.4.2 of the articles of association, the Management Board is authorised, with the consent of the Supervisory Board, to increase until 5 July 2011 the company's share capital by up to EUR 167,425,528.00 by issuing 83,712,764 shares. The type of shares to be issued, the issue price, the conditions for subscriptions and any exclusion of subscription rights are to be set out by the Management Board and must be approved by the Supervisory Board.

In accordance with art. 4.5 of the articles of association, the Management Board was authorised at the Annual General Meeting of 8 May 2001 to decide on a contingent capital increase up to a par value of EUR 18,168,208.54. Such a decision requires the approval of the Supervisory Board. The Management Board has exercised this authority fully on 21 January 2002, backed by the decision of the Supervisory Board of 31 January 2002.

In fiscal year 2002, 252,159 ordinary bearer shares of a total par value of EUR 1,832,510.92 were subscribed under the employee stock ownership programme and the management stock option programme.

In fiscal year 2003, 117,926 shares were subscribed to under ESOP 2003; 768 options were exercised under MSOP 2002. In total, 118,694 ordinary bearer shares of a total par value of EUR 862,582.94 were subscribed. At the Annual General Meeting of 4 May 2004, a share split of a ratio of 1:4 was decided.

In fiscal year 2004, 278,940 shares were subscribed to under ESOP 2004; 1,388,720 options were exercised under MSOP 2002. In total, 1,667,660 ordinary bearer shares of a total par value of EUR 3,335,320 were subscribed.

In fiscal year 2005, 332,640 shares were subscribed under ESOP 2005; 1,408,068 options were exercised under MSOP 2002. In total, 1,740,708 ordinary bearer shares of a total par value of EUR 3,481,416.00 were subscribed.

Under ESOP 2006 and as a result of the exercise of options granted under MSOP 2002 and MSOP 2005, a total of 976,389 ordinary bearer shares were subscribed to at a total par value of EUR 1,952,778.00 in fiscal year 2006.

Thus, nominal conditional capital is of a total of EUR 8,263,662.00. This capital can be converted by issuing up to 4,131,831 ordinary bearer shares at an issue price of at least EUR 2.00 per share, against cash contributions and under exclusion of the subscription rights of previous shareholders.

Under art. 4.6 of the articles of association, the Management Board was authorised for a 5-year period as of entry into the companies register of the amendment of the articles of association to decide a capital increase of a total par value of up to EUR 20,000,000.00 by issuing up to 10,000,000 ordinary bearer shares at an issue price of at least EUR 2.00 per share against cash contributions and under exclusion of the subscription rights of previous shareholders. This conditional capital is used to grant share options to employees, managers and members of the Management Board of the company or of a Group company.

As approved by the extraordinary general meetings held on 21 August 1997 and 4 May 2004, and as per art. 4.7 of the articles of association, the Management Board has been authorised to carry out a conditional capital increase by 24,000,000 ordinary bearer shares at a total par value of EUR 48,000,000, to be carried out if holders of convertible bonds exercise their conversion rights.

#### 20) Additional disclosures pursuant to sec. 243a UGB

As of 31 December 2006, DIE ERSTE österreichische Spar-Casse Privatstiftung (hereinafter "Foundation") has a direct 30.5% share in Erste Bank AG. This makes the Foundation the biggest sole investor in Erste Bank AG.

The Foundation received a dividend of EUR 43.1 million on its holding in Erste Bank AG in 2006 (for fiscal year 2005). The purpose of the Foundation, in addition to holding a substantial equity interest in Erste Bank AG, is to support social, scientific and cultural institutions and charities, as well as generally promoting the guiding principles of the Savings Bank philosophy. The current members of the Management Board of the Foundation are Andreas Treichl (Chairman of the Management Board) of Erste Bank AG), Franz Ceska and Dietrich Karner. The Supervisory Board of the Foundation had nine members at the end of 2006, two of them are also members of the Supervisory Board of Erste Bank AG.

As of 31 December 2006, the Foundation reported accounts receivable from Erste Bank AG of EUR 35.2 million and accounts owed to Erste Bank AG totalling EUR 7.3 million. At arms length derivative transactions for hedging purposes were in place between Erste Bank and the Foundation at the end of 2006 (interest rate swaps with a nominal volume of EUR 75 million and caps and floors of EUR 247.4 million each).

As a result of accounts receivable and/or accounts payable of Erste Bank AG and the said derivative transactions, the private Foundation recorded interest income of EUR 3.2 million and interest expense of EUR 2.7 million in 2006.

In accordance with art. 12.1 of the articles of association, the shareholder DIE ERSTE österreichische Spar-Casse Privatstiftung is authorised to nominate up to one third of the members of its Supervisory Board to be elected at the Annual General Meeting. Until now, the Foundation has not exercised its nomination rights.

Provisions concerning the appointment and dismissal of members of the Management Board and the Supervisory Board that are not prescribed by statutory law concern art. 12.4 of the articles of association, pursuant to which a quorum of three quarters of votes and a quorum of three quarters of the share capital existing at the time of resolution are required to decide on the dismissal of members of the Supervisory Board.

No limitations concerning voting rights or transfer of shares are stipulated in the articles of association. The Management Board has no knowledge of limitations agreed among partners. The sole exception is the lockup period of one year in connection with the employee stock ownership programmes (MSOP and ESOP).

Provisions on the amendment of the company's articles of association that are not prescribed by statutory law are governed in art. 16.9 of the articles of association to the extent that, where the articles of association call for larger majorities for certain decisions, these stipulations themselves can only be amended with the same larger majorities. Moreover, the last two sentences of article 16.9 can only be amended with a quorum of three quarters of the votes and a quorum of three quarters of the share capital at the time of decision.

The following paragraph lists significant agreements, which the company is party to, and which become effective, are amended or become ineffective when there is a change of control of the company as a result of a takeover bid:

The stock option plan of Erste Bank includes the following special provisions (sec. 17 of the stock option plan) in the event of a takeover bid:

- (1) In the event that a takeover bid is announced for the shares of Erste Bank, all options allocated to but not yet delivered to eligible managers who meet the personal conditions for participation are delivered without delay.
- (2) In such an event the delivery date, the end of the exercise window and the value date will be set by the Management Board of Erste Bank. They should be set in such a way that it is possible to exercise the options and sell the shares during the takeover procedure.
- (3) In this case, performance leaders will not be chosen from among employees and/or options will not be allocated to them.
- (4) All allocated and delivered options may be exercised by recipients starting one day after delivery; the provisions of sec. 11 (1) 2 (minimum retention period of options) and sec. 12 (1) 1 (exercise window) do not apply. The acquired shares may be offered for sale during the takeover procedure; sec. 16 (lockup period) does not apply.
- (5) The lockup period of shares obtained previously (sec. 16) ends with the announcement of the takeover bid.
- (6) If the takeover bid is withdrawn without a competitor having issued a takeover bid, options allocated pursuant to sec. 1 but not yet exercised become subject to a lockup period of one year as of the day the withdrawal of the takeover bid becomes known. This corresponds to the lockup period under sec. 1, which applies to the shares obtained on the basis of allocated options. The lockup period(s) terminated under sec. 5 are not re-applied.

No indemnification agreements exist between the company and the members of the Management Board or Supervisory Board or employees to cover against public takeover bids.

## 21) Reserves

### a) Changes in capital reserves:

Capital reserves on 31 December 2006 totalled EUR 4,589.6 million (EUR 1,491.4 million in the previous year). The increase in capital reserves by EUR 3,098.2 million is the result of the capital increases described in section III. 17 of these Notes.

### b) Changes in revenue reserves:

Revenue reserves increased from EUR 595.8 million to EUR 784.5 million in the reporting year. This change is the result of the allocation of EUR 146.6 million to unrestricted revenue reserves, and to the reserve for own shares of EUR 42.1 million.

### c) Changes in the reserve pursuant to sec. 23(6) Austrian banking Act:

The allocation in 2006 to achieve the target reserve of 2.5% of risk-weighted assets as of 31 December 2000 plus 1% of risk-weighted asset growth of 31 December 2000 until 31 December 2006 is EUR 87.0 million: the total reserve on 31 December 2006 is therefore EUR 854.0 million.

### d) Changes in untaxed reserves (EUR millions)

The reduction in untaxed reserves to a total of EUR 13.8 million (EUR 14.4 million in the previous year) is the result of the reversal of valuation reserves due to special depreciations.

## 22) Own supplementary capital

On the balance sheet date 2006, Erste Bank held supplementary capital issued by itself of a carrying value of EUR 12.9 million (EUR 9.6 million in the previous year).

## 23) Own subordinated capital

On the balance sheet date 2006, Erste Bank held subordinated own capital with a carrying value of EUR 1.9 million (EUR 2.0 million in the previous year).

## 24) Own shares

### Treasury shares held by Erste Bank

	No. of shares	Par value (EUR)
Portfolio as of 1 January 2006	42,393	84,786
Total additions	97,470,928	194,941,856
Total disposals	96,755,090	193,510,180
Portfolio as of 31 December 2006	758,231	1,516,462
Highest level of treasury shares held during 2006	1,586,617	3,173,234

### Additional disclosures pursuant to sec. 243a UGB

Pursuant to the following provisions, members of the Management Board have the right to decide that Erste Bank repurchases its own shares:

Concerning the repurchase of shares, the Annual General Meeting of 19 May 2006 has decided the following:

The company is entitled to purchase treasury shares under sec. 65 (1) 7 of the Austrian Stock Corporation Act ("Aktengesetz") for the purpose of trading securities. However, the trading portfolio of these shares may not exceed five percent of the share capital at the end of any calendar day. The market price of each of the shares to be purchased may not be lower than EUR 10.00 or higher than EUR 100.00. This authorisation is valid for 18 months, i.e. until 19 November 2007.

The Management Board is entitled, upon approval by the Supervisory Board, to purchase treasury shares in accordance with sec. 65 (1) 8 of the Austrian Stock Corporation Act. However, the shares purchased under this authorisation and under sec. 65 (1) 1, 4 and 7 AktG may not exceed ten percent of the share capital. The market price of each of the shares to be purchased may not be lower than EUR 10.00 or higher than EUR 100.00. The company is obliged to publish the relevant Management Board decision and the details of the repurchase programme, as well as its duration. The shares thus purchased can be sold, upon approval by the Supervisory Board, in the form of an issue of shares as consideration for the acquisition of companies, businesses, workshops or shares of one or more domestic or foreign companies: such an offering is conducted outside the stock markets and does not constitute a public offering. Furthermore, the Management Board is entitled to withdraw treasury shares without the decision of a Annual General Meeting. This authorisation is valid for 18 months, i.e. until 19 November 2007.

All sales and purchases are carried out as authorised by the Annual General Meeting.

**25) Qualifying capital****a) Risk-weighted assets pursuant to section 22 (2) Austrian Banking Act (in EUR million):**

Risk category (qualifying capital coverage)	31/12/2005	31/12/2005	31/12/2006	31/12/2006
	unweighted assets	risk-weighted assets acc. to BWG (1)	unweighted assets	risk-weighted assets acc. to BWG (1)
0%	14,970	0	13,777	0
10%	43	4	28	3
20%	10,136	2,027	11,650	2,330
50%	4,975	2,488	5,238	2,619
100%	20,385	20,385	26,919	26,919
Investment certificates	512	154	391	140
On-balance total	51,021	25,058	58,003	32,011
Off-balance-sheet transactions (particularly sureties and guarantees)		3,786		4,833
Special off-balance-sheet financial transactions		98		107
Volumes dedicated to the trading book	23,145	-	25,689	-
<b>Total</b>	<b>74,166</b>	<b>28,942</b>	<b>83,692</b>	<b>36,951</b>

(1) Risk-weighted assets pursuant to section 22 (2) Austrian Banking Act therefore do not include the risk-weighted assets for the trading book pursuant to section 22 b Austrian Banking Act.

**b) Qualifying capital requirement in accordance with section 22 Abs.1 BWG (in EUR million):**

	31/12/2005	31/12/2006
8% of the weighted asset position, off-balance-sheet and special off-balance-sheet financial transactions in accordance with section 22 (2) BWG	2,315	2,956
<u>Qualifying capital requirement for the trading book and the open position in foreign currency (section 22b and section 26 Austrian Banking Act) 321</u>		<u>376</u>
Total qualifying capital requirement	2,636	3,332

## c) Own funds in acc. with section 23 BWG (in EUR)

31.12.2005

31.12.2006

<b>Tier 1 capital</b>		
Paid-in capital	486	629
Reserves	2,867	6,199
less intangible assets	-89	-75
<b>Tier 1 total</b>	<b>3,264</b>	<b>6,753</b>
<b>Qualifying additional qualifying capital (Tier 2)</b>		
Supplementary capital	966	1,027
Revaluation surplus	173	201
Subordinated capital	1,115	1,544
<b>Eligible subordinated liabilities</b>	<b>2,254</b>	<b>2,772</b>
<b>Eligible short-term subordinated capital (Tier 3)</b>		
Rededication of non-qualifying eligible subordinated liabilities	204	182
<b>Tier 1 capital and additional qualifying capital total</b>	<b>5,722</b>	<b>9,707</b>
Deductions pursuant to section 23 (13) and section 29 (1) and (2) BWG	-207	-216
<b>Qualifying capital (Tier 1 + 2 + 3)</b>	<b>5,515</b>	<b>9,491</b>
<b>Requirement of qualifying capital</b>	<b>2,636</b>	<b>3,332</b>
<b>Qualifying capital surplus</b>	<b>2,879</b>	<b>6,159</b>
<b>Coverage ratio</b>	<b>209.2%</b>	<b>284.8%</b>
<b>Qualifying capital surplus from Tier 1+2 funds</b>	<b>2,879</b>	<b>6,159</b>
<b>Qualifying capital surplus from Tier 3 funds</b>	<b>0</b>	<b>0</b>
<b>Solvency ratio (1)</b>	<b>18.0%</b>	<b>24.7%</b>
<b>of which Tier 1 ratio (2)</b>	<b>11.3%</b>	<b>18.3%</b>

(1) Total eligible qualifying capital pursuant to section 23 Austrian Banking Act less trading book requirements and open foreign currency positions in relation to the risk-weighted assets acc. to section 22 (2) Austrian Banking Act

(2) Tier 1 capital in relation to the risk-weighted assets acc. to section 22 (2) Austrian Banking Act.

## 26) List of assets which serve as security for liabilities pursuant to section 64 (1) (8) Austrian Banking Act

Assets in EUR million	31/12/2006	as security for liabilities from the following transactions
Fixed-interest securities	30	Collateral for the benefit of Oesterr. Kontrollbank AG
	107	Collateral for intraday transactions
	141	Securities for loans to companies of the Erste Bank Group: of Slovenská Sporitelna a.s.
	19	of Česká Sporitelna a.s.
	75	Reserve for consolidated Erste Bank bonds
	5	Securities for other liabilities
	49	Premium reserve for gilt-edged savings deposits
	3,238	Securities for ECB custody account
	392	Margin requirements
	Loans and advances to customers	54
20		Margin requirements
Loans and advances to credit institutions	1,497	Premium reserve for mortgage and municipal bonds
	100	Securities for loans of Erste & Steiermärkische Bank d.d. to companies of the Erste Bank Group
	99	Securities for other liabilities

## 27) Total volume of unsettled derivatives

as of 31/12/2006 (in EUR million):		Nominal amounts by remaining maturity			total
		< 1 year	1-5 years	> 5 years	
<b>Interest rate contracts</b>		269,837	106,334	58,403	434,574
OTC products:					
Interest rate options	purchase	24,650	23,865	7,049	55,564
	sale	21,001	23,079	8,016	52,096
Interest rate swaps	purchase	106,208	30,390	24,442	161,040
	sale	114,116	28,393	18,391	160,900
FRA's	purchase	127	0	0	127
	sale	340	0	0	340
Listed products:					
Futures		2,913	607	505	4,025
Interest rate options		482	0	0	482
<b>Currency contracts</b>		72,703	3,116	682	76,501
OTC products:					
Currency options	purchase	2,966	129	0	3,095
	sale	2,836	433	22	3,291
Currency swaps	purchase	33,699	1,031	398	35,128
	sale	33,201	1,523	262	34,986
Listed products:					
Futures		1	0	0	1
Currency options		0	0	0	0
<b>Precious metal contracts</b>		2	0	0	2
OTC products:					
Precious metal options	purchase	1	0	0	1
	sale	1	0	0	1
Listed products:					
Futures		0	0	0	0
Precious metal options		0	0	0	0
<b>Securities-related transactions</b>		1,983	679	636	3,298
OTC products:					
Stock options	purchase	300	255	143	698
	sale	268	410	409	1,087
Listed products:					
Futures		215	0	0	215
Stock options		1,200	14	84	1,298
<b>Total</b>		344,525	110,129	59,721	514,375
of which OTC products:		339,714	109,508	59,132	508,354
of which listed products:		4,811	621	589	6,021

Note: Interest rate and currency swaps are one-sided (purchase), currency options are two-sided.

## 28) Derivatives and financial instruments of assets under the Fair-Value Valuation Act

## Derivative financial instruments

as of 31/12/2006 (in EUR '000.):	Par value purchase	Par value sale	Carrying value	Positive fair value	Negative fair value
<b>Interest rate contracts</b>					
OTC products					
Interest rate options	55,563,658	52,095,597	18,519	27,977	-68,955
Interest rate swaps	161,039,579	160,899,513	138,880	156,732	-144,899
FRA's	127,345	340,367	-60	0	-60
Listed products					
Futures	865,127	3,160,173			
Interest rate options	481,929	0	564	568	-4
<b>Currency contracts</b>					
OTC products					
Currency options	3,095,202	3,290,659	-14,647	11,962	-26,609
Currency swaps	35,127,644	34,986,478	-91	73,557	-70,703
Listed products					
Futures	724	749			
Currency options	0	0	0	0	0
<b>Securities-related contracts</b>					
OTC products					
Stock options	697,979	1,087,448	19,378	30,387	-11,009
Listed products					
Futures	52,629	162,513			

Stock options	287,872	1,009,713	882	1,036	-154
<b>Precious metal contracts</b>					
OTC products					
Precious metal options	1,139	911	-128	0	-128
Listed products					
Futures	0	160			
Precious metal options	0	0	0	0	0
<b>Commodity and other contracts</b>					
OTC products					
Commodity options	0	0	0	0	0
Listed products					
Futures	150	0			
Commodity options	0	0	0	0	0
OTC products	255.652.545	252.700.973	161.851	300.615	-322.363
Listed products	1.688.432	4.333.308	1.446	1.603	-157
<b>Totals</b>	<b>257.340.977</b>	<b>257.034.281</b>	<b>163.297</b>	<b>302.218</b>	<b>-322.520</b>

**Financial instruments (assets)**

as of 31/12/2006 (in EUR '000):	Carrying value	Fair value	Hidden liabilities	Hidden reserves
Treasury bills	2,502,838	2,467,882	34,956	
	860,240	866,268		6,028
Loans and advances to credit institutions	873,154	868,732	4,422	
	2,254,820	2,257,079		2,259
Loans and advances to customers	463,482	461,818	1,664	
	1,513,325	1,518,423		5,098
Bonds	1,344,757	1,328,638	16,119	
	4,123,733	4,143,686		19,953
Shares	71,543	70,075	1,468	
	318,914	323,360		4,446
<b>Total</b>	<b>5,255,774</b>	<b>5,197,145</b>	<b>58,629</b>	
	9,071,032	9,108,816		37,784

Assets were not written off as the impairments are presumably not permanent. The fair value is the amount that could be achieved in an active market through the sale of a financial instrument or that would be payable for the corresponding purchase thereof. Provided that market prices were available, these have been taken as reference. If no market prices were available, valuation models, particularly the discounted cash flow method, was applied. The positions were recognised the interest income in the Income Statement and in the net trading income.

**29) Risk provisions**

Changes in risk provisions (loans and advances to credit institutions and loans and advances to customers as well as contingent liabilities) in EUR million:	2005	2006
At beginning of year	748	<b>786</b>
less utilised provisions	-120	<b>-154</b>
less released provisions	-94	<b>-109</b>
change due to spin-offs / legal mergers	0	<b>0</b>
plus additions	239	<b>208</b>
Currency fluctuations, transfers and changes to the provisions recognised in the provisions for interest receivables	13	<b>-11</b>
At end of year	786	<b>720</b>



#### IV. Notes on the Income statement:

1) Members of the fiscal group of Erste Bank (subsidiaries that are considered a fiscal unity with Erste Bank AG under the new group taxation regulations of 2005) profits posted in the Income Statement of Erste Bank under **profits from equity interests and shares in associates and subsidiaries** reached a total of EUR 109.4 million in the reporting year (EUR 137.8 million in the previous year). No impairment or other expenses for Group members arose in the reporting year (EUR 14.0 million in the previous year).

2) The **gross profit** of Erste Bank had the following regional distribution, by the domicile of business offices:

(EUR millions)	Domestic	International	2005 Total	Domestic	International	2005 Total
Interest and similar income	1,744	446	2,190	<b>2,093</b>	<b>635</b>	<b>2,728</b>
Income from securities and equity interests	458	3	461	<b>441</b>	<b>2</b>	<b>443</b>
Fee and commission income	382	17	399	<b>436</b>	<b>14</b>	<b>450</b>
Income from financial transactions	102	1	103	<b>108</b>	<b>2</b>	<b>110</b>
Other operating income	15	0	15	<b>5</b>	<b>1</b>	<b>6</b>
<b>Total</b>	<b>2,701</b>	<b>467</b>	<b>3,168</b>	<b>3,083</b>	<b>654</b>	<b>3,737</b>

3) Fee and commission income includes income from **administrative and agency services** of the credit institution vis-à-vis third parties of EUR 69.1 million (EUR 65.9 million in the previous year).

4) **Other operating results** totalling EUR 5.5 million (EUR 14.9 million in the previous year) primarily include capital gains from the sale of equipment and rent.

5) Personnel expenses include severance payments and contributions to pension funds of EUR 20.8 million (EUR 17.3 million in the previous year), expenses for company pension schemes of EUR 53.8 million (EUR 48.5 in the previous year) and expenses from changes in the pension provision of EUR 30.1 million (EUR 1.8 million in the previous year) under item **severance payments and contributions to pension funds**. The increase of the pension provision is the result of changes in measurement parameters, specifically the reduction of the discount rate.

6) **Other operating expenses** of Erste Bank, totalling EUR 11.3 million (EUR 4.9 million in the previous year) in general consist of losses in sales of real estate purchased at auctions, as well as expenses for litigation and damage events.

7) The net total of **extraordinary income** and **extraordinary expenses** of EUR -11.8 million (EUR -11.8 million in the previous year) is the result of expenses incurred to close the pension provision gap and the prorata, amortisation of the difference from the transfer of pension expectancies for active employees to the pension fund.

8) Under the item **income tax**, net income of EUR 19.8 million was reported (EUR 2.5 million in the previous year). This net income includes an income of EUR 43.1 million (EUR 27.7 million in the previous year) from the tax allocation to subsidiaries under the group taxation scheme pursuant to sec. 9 KStG 1988. The principal expenses under this item are foreign income tax and other foreign income-related taxes of EUR 24.3 million.

## V. Information on board members and employees

### 1) Employees

The average number of employees at Erste Bank (weighted, excluding employees on leave and members of the Management Board) was 4,193 during fiscal year 2006 (4,183 in the previous year).

Of these, 456 employees (469 in the previous year) worked for other companies in exchange for reimbursed expenses. The total reimbursement was EUR 35.362 million (EUR 34.733 million in the previous year) and is recognised as general administrative expenses (personnel expenses) in the Income Statement.

### 2) Board members

At the end of 2006, loans and advances to members of the Management Board totalled EUR 603,000 (EUR 129,000 in the previous year). Loans to members of the Supervisory Board remained unchanged at EUR 400,000 (EUR 400,000 in the previous year). The applicable interest rates and other terms (maturity dates and collateralisation) are in line with normal market practice. In the current fiscal year, members of the Management Board made loan repayments totalling EUR 10,000 (EUR 9,000 in the previous year) and members of the Supervisory Board made no repayments (EUR 1,973,000 in the previous year) on loans.

In 2006, the then members of the Management Board received remuneration (including non-cash compensation) in their capacity as Management Board members totalling EUR 11.219 million (EUR 10.833 million), which represented 2.54% of the total personnel expenses of the Erste Bank Group.

In fiscal year 2006, EUR 647,000 (EUR 627,000 in the previous year) were paid to former members of the Management Board or their surviving dependants.

The breakdown of the remuneration of the members of the Management Board in 2006 was as follows:

(in EUR '000)

Name of the Management Board member:	Monetary compensation Fixed income	Monetary compensation Bonus payments	Other emoluments earnings	Total:
Andreas Treichl	1,245	1,357	366	2,968
Elisabeth Bleyleben-Koren	934	1,030	222	2,186
Reinhard Ortner	778	850	189	1,817
Franz Hochstrasser	778	875	188	1,841
Erwin Erasim	519	583	131	1,233
Christian Coreth until 31/10/2006	417	583	87	1,087
Bernhard Spalt since 01/11/2006	71	-	16	87
	4,742	5,278	1,199	11,219

Pension fund contributions and various in kind benefits are included in "other emoluments". In 2006 the Management Board of Erste Bank AG did not receive board emoluments or other compensation from fully consolidated subsidiaries of Erste Bank. The emoluments of the members of the Management Board depend on the individual's responsibilities, the achievement of corporate targets and the Group's earnings.

The Supervisory Board members of Erste Bank were paid EUR 517,000 in 2005 (EUR 372,000 in the previous year) for their board function. Members of the Supervisory Board received the following compensation for board positions in fully consolidated subsidiaries of Erste Bank: Heinz Kessler: EUR 19,137.00 and Josef Kassler: EUR 275.00. No other transactions were entered into with members of the Supervisory Board. The following amounts have been invoiced for other business transactions by companies related to members of the Supervisory Board: In 2006, PWC Corporate Finance Beratung GmbH, a company of which Friedrich Rdlr is managing director, invoiced Erste Bank EUR 648,000.00 (excl. VAT) for work done under a contract. In 2006, PWC PricewaterhouseCoopers Wirtschaftsprüfung und Steuerberatung GmbH, a company for which Friedrich Rdlr is managing director and in which he holds an ownership interest of 79.1%, invoiced Erste Bank EUR 150,000.00 (excl. VAT) for work done under a contract. For both orders, secondary fees of more than 50% of the invoiced amount were charged to non-related companies. In 2006, DORDA BRUGGER JORDIS Rechtsanwälte GmbH, in which Theresa Jordis is a partner, invoiced Erste Bank EUR 360,000.00 for one mandate and EUR 167,041.00 for further legal services.

The emoluments for members of the Supervisory Board in detail:

(in EUR '000).

Name of Supervisory Board member:	Supervisory Board compensation	attendance fee	total:
Heinz Kessler	50	18	68
Georg Winckler	33	18	51
Theresa Jordis	38	17	55
Bettina Breiteneder	25	10	35
Elisabeth Gürtler	25	7	32
Jan Homan	25	6	31
Werner Hutschinski until 19/05/2006	25	4	29
Josef Kassler	25	5	30
Lars-Olof Ödlund	25	3	28
Wilhelm Rasinger	17	9	26
Friedrich Rödler	25	14	39
Hubert Singer	25	3	28
Gabriele Zuna-Kratky since 19/05/2006	0	3	3
Klaus Braunegg until 11/05/2005	12	0	12
Günter Benischek	0	7	7
Erika Hegmala	0	10	10
Ilse Fetik	0	3	3
Joachim Härtel	0	13	13
Anton Janku	0	12	12
Christian Havelka	0	4	4

The emoluments for members of the Supervisory Board depend on the duties and responsibilities of the Supervisory Board, the business volume and the company's financial situation.

Information on securities held by and Erste Bank share transactions of Management Board and Supervisory Board members (in no. of shares):

Members of the Management Board:

Name of the Management Board member:	as of 31/12/2005	additions 2006	disposals 2006	as of 31/12/2006
Andreas Treichl	120,040	3,400	0	123,440
Elisabeth Bleyleben-Koren	25,600	0	0	25,600
Reinhard Ortner	121,400	4,200	0	125,600
Franz Hochstrasser	44,256	3,000	0	47,256
Erwin Erasim	20,716	3,200	10,000	13,916
Bernhard Spalt since 01/11/2006				256
Christian Coreth until 31/10/ 2006	9,000	4,000	3,400	9,600

The following members of the Supervisory Board held the following Erste Bank shares as of 31/12/2006:

Name of Supervisory Board member:	No. of shares
Georg Winckler	1,300
Bettina Breiteneder	2,560
Wilhelm Rasinger	2,935
Friedrich Rödler	24
Günter Benischek	605
Ilse Fetik	104
Erika Hegmala	128
Joachim Härtel	24
Christian Havelka	1,000
Anton Janku	352

As far as can be determined, persons related to members of the Managing Board or Supervisory Board held 20,516 shares of Erste Bank on 31 December 2006.

Expenses for severance payments, pension severance payments and pensions of Erste Bank pertain to the positions "Wages and salaries", "Expenses for old-age provision and assistance", "Allocation to provision for pension commitments", "Expenses for severance pay and contribution pension funds" in the Income Statement and, if it pertains to the pro-rata catch-up requirements, to "Extraordinary expenses". Expenses for severance payments and pensions for members of the Management Board and managers in accordance with section 80 (1) Stock Corporation Act amounted to EUR 12,416 thousand (EUR 7,930 thousand in the previous year.). Expenses for severance payments and pensions for other employees amounted to EUR 94,899 thousand. (EUR 59,996) thousand in the previous year). The strong increase resulted from the use of different parameters in the calculation. Each of the amounts indicated includes the respective expenses for surviving dependants.

The information regarding members of the Management Board and Supervisory Board in accordance with section 239 (2) UGB are disclosed separately in the attachment to the Notes.

## VI. Proposed distribution of profit

In consideration of section 65 (5) Austrian Stock Corporation Act, the Management Board will propose to the Annual General Meeting the payment of a dividend of EUR 0.65 per share. Hence, the dividend totals EUR 204,942,520.25; the remaining retained profit of EUR 92,725.23 is to be carried forward.

## Attachment to the Notes

### Executive bodies of Erste Bank der oesterreichischen Sparkassen AG

#### *Supervisory Board*

**Heinz Kessler,**  
President  
Chief Executive Officer (retired)

**Georg Winckler**  
1<sup>st</sup> Vice President  
Rector of the University of Vienna  
Professor for Economics at the University of Economics and Business Management

**Theresa Jordis,**  
2<sup>nd</sup> Vice President  
Lawyer

**Bettina Breiteneder**  
Business Owner

**Elisabeth Gürtler**  
Businesswoman

**Jan Homan**  
Chief Executive Officer of Teich AG

**Werner Hutschinski** until 19/05/2006  
Retired CEO

**Josef Kasser**  
Retired CEO.

**Lars-Olof Ödlund**  
Senior advisor

**Wilhelm Rasinger**  
Businessman

**Friedrich Rödler**  
Public accountant and tax advisor

**Hubert Singer**  
CEO of Dornbirner Sparkasse AG

**Gabriele Zuna-Kratky** since 19/05/2006  
Director of Technisches Museums Wien

**Representatives of the Employees' Council:**

**Günter Benischek**

Chairman of the Central Employees' Council

**Erika Hegmala**

Deputy Chairwoman of the Central Employees' Council

**Ilse Fetik**

Member of the Central Employees' Council

**Joachim Härtel**

Member of the Central Employees' Council

**Christian Havelka**

Member of the Central Employees' Council

**Anton Janku**

Member of the Central Employees' Council

***Representatives of the supervisory authority***

**Robert Spacek**

Senate Councillor, State Commissioner

**Dietmar Griebler**

Senate Councillor, Deputy State Commissioner

**Sabine Kanduth-Kristen**

State Controller for Premium Reserve

**Eduard Moser**

Deputy State Controller for Premium Reserve

**Irene Kienzl**

Trustee for Guarantee of Mortgage and Municipal Bonds

**Anton Rainer**

Deputy Trustee for Guarantee of Mortgage and Municipal Bonds  
**Chairman**

**Andreas Treichl**

Chairman

**Elisabeth Bleyleben-Koren**

Vice Chairwoman

**Reinhard Ortner**

Member of the Management Board

**Franz Hochstrasser**

Member of the Management Board

**Erwin Erasim**

Member of the Management Board

**Christian Coreth**

Member of the Management Board

until 31/10/2006

**Bernhard Spalt**

Member of the Management Board

since 01/11/2006

## Attachment to Notes

### Statement of changes in fixed assets and long-term assets 2006

in million EUR	Acquisition costs			as of 31/12/2006	Write-ups acc. to sec. 56 (3) BWG Currency exchange rate revaluations	Cumulative write-downs 31/12/2006	Carrying value 31.12.2006	Carrying value 01/01/2006	Depreciation 2006
	as of 01/01/2006	Additions	Disposals						
Equity interests	555.2	125.0	5.0	675.2	0.0	21.6	653.6	536.5	2.9
Holdings in associates and subsidiaries	4,473.3	4,459.7	59.4	8,873.6	0.0	449.5	8,424.1	4,027.5	7.6
Intangible assets	45.3	0.0	23.7	21.6	0.0	16.1	5.5	9.3	3.8
Goodwill	318.2	23.5	68.4	273.3	0.0	203.8	69.5	79.5	33.5
Other	363.5	23.5	92.1	294.9	0.0	219.9	75.0	88.8	37.3
Tangible assets	395.9	7.6	57.9	345.6	0.0	258.8	86.8	97.5	14.5
Securities									
Treasury bills and similar instruments	3,576.3	947.8	1,117.5	3,406.6	13.1	56.6	3,363.1	3,546.3	0.0
Loans and advances to credit institutions	3,539.2	2,292.5	2,696.0	3,135.7	0.4	8.1	3,128.0	3,540.5	0.0
Loans and advances to customers	2,024.8	531.1	572.8	1,983.1	0.0	6.3	1,976.8	2,022.5	0.0
Fixed-interest securities	5,349.5	1,141.4	1,002.3	5,488.6	15.4	35.5	5,468.5	5,350.9	0.0
Securities	451.4	90.4	151.2	390.6	0.2	0.4	390.4	447.2	0.0
	14,941.2	5,003.2	5,539.8	14,404.6	29.1	106.9	14,326.8	14,907.4	0.0
Sum total	20,729.1	9,619.0	5,754.2	24,593.9	29.1	1,056.7	23,566.3	16,570.7	62.3

## Attachment to Notes

### Equity interests of Erste Bank AG as of 31/12/2006

In principle, the amounts for equity and results have been determined on the basis of the financial statements and Group financial statements uniformly drawn up according to IFRS standards for the entire Group and may therefore differ from the amounts published by the companies in compliance with their respective local legal requirements. An attempt is made to improve the information provided by indicating the amounts from the financial statements prepared according to uniform Group accounting standards.

The indicated result corresponds to the net income after taxes (but before movements in reserves).

Company name, domicile	Indirect share in %	Equity in EUR million	Result in EUR million	Result transfer 1)	Date of balance sheet	Accounted for consolidated financial statements 2)
<b>1.) Credit institutions</b>						
Allgemeine Sparkasse Oberösterreich Bankaktiengesellschaft, Linz (Group)	26.9%	451.9	67.0		31/12/2006	F
Banca Comerciala Romana SA, Bukarest (Group)	69.2%	1,255.8	218.0		31/12/2006	F
Bausparkasse der österreichischen Sparkassen Aktiengesellschaft, Vienna	95.0%	138.8	23.2		31/12/2006	F
Česká spořitelna a.s., Prague (Group)	98.0%	1,814.1	372.8		31/12/2006	F
Erste & Steiermärkische banka d.d., Rijeka	54.7%	386.9	56.0		31/12/2006	F
Erste Bank (Malta) Limited, Sliema	100.0%	130.0	9.7		31/12/2006	F
ERSTE BANK AD NOVI SAD, Novi Sad	100.0%	59.2	-28.3		31/12/2006	F
Erste Bank Hungary Nyrt., Budapest (Group)	99.9%	456.3	88.4		31/12/2006	F
ERSTE-SPARINVEST Kapitalanlagegesellschaft m.b.H., Vienna	84.3%	13.1	30.2		31/12/2006	F

Europay Austria Zahlungsverkehrssysteme GmbH, Vienna	3.1%	53.3	21.8		31/12/2005	E
Intermarket Bank AG, Vienna	21.3%	29.2	4.4		31/12/2006	E
Kapital-Beteiligungs Aktiengesellschaft, Vienna	15.0%	8.6	-0.2		30/09/2006	A
Kärntner Sparkasse Aktiengesellschaft, Klagenfurt (Group)	25.0%	319.7	44.9		31/12/2006	F
NÖ Beteiligungsfinanzierungen GmbH, Vienna	30.0%	3.0	0.0		30/09/2006	E
NÖ Bürgschaften GmbH, Vienna	25.0%	6.5	0.0		31/12/2005	E
Oesterreichische Kontrollbank Aktiengesellschaft, Vienna (Group)	12.9%	352.9	47.9		31/12/2005	A
Österreichische Hotel- und Tourismusbank Gesellschaft m.b.H., Vienna	18.8%	26.9	1.2		31/12/2005	A
Prvá stavebná sporiteľna, a.s., Bratislava (Group)	35.0%	231.7	33.0		31/12/2006	E
s Wohnbaubank AG, Vienna (Group)	90.3%	33.1	2.8		31/12/2006	F
Salzburger Sparkasse Bank Aktiengesellschaft, Salzburg	98.7%	171.9	21.0	X	31/12/2006	F
Slovenská sporiteľňa a.s., Bratislava (Group)	100.0%	592.3	104.1		31/12/2006	F
"Spar - Finanz" - Investitions- und VermittlungsAktiengesellschaft, Vienna	50.0%	3.7	0.1		31/12/2005	E
Sparkasse Hainburg-Bruck-Neusiedl Aktiengesellschaft, Hainburg	75.0%	32.2	8.4	X	31/12/2006	F
Sparkasse Kremstal-Pyhrn Aktiengesellschaft, Kirchdorf	24.1%	49.3	7.6		31/12/2006	F
Sparkasse Mühlviertel-West Bank Aktiengesellschaft, Rohrbach	40.0%	55.6	8.8		31/12/2006	F
Sparkasse Voitsberg-Köflach Bankaktiengesellschaft, Voitsberg	6.3%	23.1	1.6		31/12/2006	F
Steiermärkische Bank und Sparkassen Aktiengesellschaft, Graz (Group)	25.0%	720.9	107.8		31/12/2006	F
Tiroler Sparkasse Bankaktiengesellschaft Innsbruck, Innsbruck (Group)	75.0%	152.5	16.8		31/12/2006	F
<b>2.) Financial institutions</b>						
EBV - Leasing Gesellschaft m.b.H. & Co. KG., Vienna	100.0%	8.7	0.6		31/12/2006	F
Erste Corporate Finance GmbH, Vienna	100.0%	2.1	1.3		31/12/2006	F
Erste Securities Polska S.A., Warsaw (Group)	100.0%	8.1	3.3		31/12/2006	F
Erste Securities Zagreb d.o.o., Zagreb	97.7%	2.6	0.4		31/12/2006	F
IMMORENT Aktiengesellschaft, Wien (Group)	100.0%	450.5	85.5		31/12/2006	F
Neue Eisenstädter gemeinnützige Bau-, Wohn- und Siedlungsgesellschaft m.b.H., Eisenstadt	50.0%	6.4	0.4		31/12/2005	A
Österreichisches Volkswohnungswerk, Gemeinnützige Gesellschaft mit beschränkter Haftung, Vienna	100.0%	37.0	3.3		31/12/2005	A
s Autoleasing GmbH, Vienna	100.0%	0.1	0.1		31/12/2006	F
"Wohnungseigentümer" Gemeinnützige Wohnbaugesellschaft m.b.H., Mödling	26.0%	24.6	4.1		31/12/2005	A
<b>3.) Others</b>						
ARWAG Holding-Aktiengesellschaft, Vienna (Group)	19.2%	54.5	15.4		31/12/2005	A
Aviso Alpha Veranlagung GmbH, Vienna	22.9%	442.0	4.5		31/12/2006	E
Budapesti Értéktőzsde Zrt, Budapest	12.2%	31.2	9.0		31/12/2005	A
Capexit Private Equity Invest AG, Vienna (Group)	93.9%	15.9	9.8		31/12/2006	F
CSSC Customer Sales Service Center GmbH, Vienna	46.9%	0.0	0.0		31/12/2006	F
Dezentrale IT-Infrastruktur Services GmbH, Vienna	74.4%	0.1	0.2		31/12/2006	F
Donau Allgemeine Versicherungs-Aktiengesellschaft , Vienna	8.5%	90.5	20.6		31/12/2005	A

EB-Beteiligungsservice GmbH, Wien	99.8%	0.0	0.0		31/12/2006	F
EB-Malta-Beteiligungen Gesellschaft m.b.H., Vienna	100.0%	131.2	10.2		31/12/2006	F
E B-Restaurantsbetriebe Ges.m.b.H., Vienna	100.0%	0.1	0.0		31/12/2006	F
ecetra Internet Services AG, Vienna(Group)	100.0%	17.6	-2.8		31/12/2006	F
ECO Unternehmensbeteiligungs- GmbH, Vienna	100.0%	16.7	-1.0		31/12/2006	F
Erste Reinsurance S.A., Luxemburg	100.0%	12.8	-2.2		31/12/2006	F
Informations-Technologie Austria GmbH, Vienna	25.8%	22.6	0.2		31/12/2006	E
OM Objektmanagement GmbH, Vienna (Group)	100.0%	81.5	-0.7		31/12/2006	F
Procurement Services GmbH, Vienna	99.8%	2.8	1.9		31/12/2006	F
s Haftungs- und Kundenabsicherungs GmbH, Vienna	62.6%	0.2	0.0		31/12/2006	F
s Immobilienfinanzierungsberatung GmbH, Vienna	72.6%	-4.9	0.1		31/12/2006	F
s REAL Immobilienvermittlung GmbH, Vienna (Group)	96.1%	2.1	1.0		31/12/2006	F
S Tourismus Services GmbH, Vienna	100.0%	5.2	0.3		31/12/2006	F
s IT Solutions AT Spardat GmbH, Vienna	73.3%	2.7	2.7		31/12/2006	F
s IT Solutions SK, spol. s.r.o., Bratislava	99.5%	1.6	1.2		31/12/2006	F
Sparkassen Immobilien Aktiengesellschaft, Vienna (Group)	15.1%	387.7	8.5		31/12/2005	E
Sparkassen Versicherung Aktiengesellschaft, Vienna (Group)	61.9%	171.3	19.2		31/12/2006	F
Sparkassen Zahlungsverkehrabwicklungs GmbH, Linz	40.0%	0.3	0.0		31/12/2006	F
"Sparkassen-Haftungs Aktiengesellschaft", Vienna	38.3%	0.2	0.0		31/12/2006	F
S-Tourismusfonds Management Aktiengesellschaft, Vienna	99.9%	47.9	1.7		31/12/2006	F
UBG-Unternehmensbeteiligungs- gesellschaft m.b.H., Vienna	100.0%	0.6	0.0		31/12/2005	A
VBV - Betriebliche Altersvorsorge AG, Vienna <sup>3)</sup>	27.2%	42.1	4.4		31/12/2005	E



VERMREAL Liegenschaftserwerbs- und -betriebs GmbH, Vienna	25.6%	7.7	0.2		31/12/2006	E
VMG-Erste Bank Versicherungsmakler GmbH, Vienna	100.0%	0.2	0.4		31/12/2006	F
WED Holding Gesellschaft m b H., Vienna	19.2%	11.5	0.0		31/12/2006	A
Wiener Börse AG, Vienna	10.1%	43.2	14.9		31/12/2006	A

1) Profit transfer agreements with Erste Bank AG

2) F Fully consolidated

E At equity

A ... Not consolidated

3) Result of VBV-Pensionskasse Aktiengesellschaft, Vienna (31/12/2005)

Vienna, 6 March 2007

**Management Board**

**Andreas Treichl**  
Chairman

**Elisabeth Bleyleben-Koren**  
Vice Chairwoman

**Reinhard Ortner**  
Member of the Management Board

**Franz Hochstrasser**  
Member of the Management Board

**Erwin Erasim**  
Member of the Management Board

**Christian Coreth**  
Member of the Management Board

## Auditor's Report

We have audited the financial statements, including the accounting records, of Erste Bank der oesterreichischen Sparkassen AG for the fiscal year 2006. The management of Erste Bank der oesterreichischen Sparkasse AG is responsible for the accounting records, the preparation and the content of the financial statements and the management report in accordance with Austrian corporate law, the supplementary provisions under Austrian banking law and the Articles of Association. Our responsibility is to express an opinion on these financial statements based on our audit and to state whether the management report is consistent with the financial statements.

We conducted our audit in accordance with the laws and regulations applicable in Austria and in accordance with Austrian Standards on Auditing. These standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement and whether we can state that the management report is consistent with the financial statements. In determining the audit procedures, we considered our knowledge of the business, the economic and legal environment of Erste Bank der oesterreichischen Sparkassen AG as well as the expected occurrence of potential errors.

An audit involves procedures to obtain evidence about amounts and disclosures in the accounting records and in the financial statements predominantly on a sample basis. An audit also includes assessing the accounting principles applied and significant estimates made by the management as well as evaluating the overall statement of the financial statements. We believe that our audit provides a reasonably sound basis for our opinion.

Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the financial statements are in accordance with legal requirements under company law the supplementary provisions under banking law and the Articles of Association, and present fairly, in all material respects, the financial position of the Erste Bank der oesterreichischen Sparkassen AG in accordance with Austrian generally accepted accounting principles. The management report is consistent with the consolidated financial statements.

Vienna, 6 March 2007

**Sparkassen-Prüfungsverband**

Auditing agency  
(bank auditors)

**Friedrich O. Hief**  
Public Accountant

**Erich Steffl**  
Tax Accountant

**Deloitte Wirtschaftsprüfungs GmbH**

**Thomas Becker**  
Public Accountant

**Erich Kandler**  
Public Accountant

On disclosure or reproduction of the financial statements in a form differing from the audited original German version (e.g. shortened version and/or version translated into another language), the auditor's report may neither be quoted nor referred to without our approval.

## Supervisory Board Report

Dear shareholders,

In the year under review, we discharged our duties under the law and Erste Bank's articles of association. We advised the Management Board regularly on the governance of Erste Bank and monitored its management. The Management Board provided us with regular, timely and comprehensive oral and written reports. At Supervisory Board meetings, Management Board members reported on the trends in their respective business divisions. For specific items on the agendas, experts were invited to provide detailed information. Furthermore, topical issues and decisions were discussed between the Chairman of the Management Board and the Chairman of the Supervisory Board. In addition, we have worked intensively on the planned re-structuring of Erste Bank Group and the succession in the Management Board of Erste Bank.

### Supervisory Board meetings

The Supervisory Board met seven times during fiscal year 2006. All members were present in at least half of the meetings.

The following major issues were discussed:

In the first meeting of the year, on 15 March 2006, we discussed and approved the audit reports, the company management report 2005, the consolidated financial statements 2005 and the Group management report 2005. We adopted the financial statements 2005 as per the recommendation of the audit committee. Moreover, we authorised the recommendation for appropriation of net profit for 2005.

In addition, we discussed the corporate governance report, approved the employee stock ownership programme (ESOP) 2006 and noted the agenda of the Annual General Meeting 2006.

In a number of meetings we discussed the situation of the bank's CEE subsidiaries, particularly those in Romania and Serbia. Moreover, we approved the purchase of up to 8% of BCR shares from BCR employees by way of an exchange of shares or a cash offer.

At the meeting of 24 October 2006, Bernhard Spalt, the head of Strategic Risk Management, was appointed to the Management Board effective 1 November 2006. He succeeds Christian Coreth, who has resigned from the Management Board for health reasons. On behalf of the Supervisory Board, I wish to thank Mr Coreth for his good work and dedication in the service of Erste Bank. At this meeting, the planned new organisational structure, which includes the creation of a holding company, was discussed in detail.

The final regular meeting of the fiscal year took place on 13 December 2006. Again the new organisational structure was discussed in detail. The creation of organisational pre-requisites for the establishment of an operative holding company by mid-2007 was decided. In its final structure, the holding company will hold all equity interests in CEE subsidiaries and in Erste Bank Österreich, which in turn is to be re-structured.

Due to the expiry of mandates of all members of the Management Board on 30 June 2007, and in view of the preparations for the new structure, the Supervisory Board at its meeting on 31 December 2006 discussed plans as to who would sit on the Management Board after that date. Reinhard Ortner and Erwin Erasim have stated their intention to go into retirement when their mandates expire on 30 June 2007.

At the recommendation of the Management Board Committee, the Supervisory Board has re-appointed Management Board members Andreas Treichl, Elisabeth Bleyleben-Koren, Franz Hochstrasser, Bernhard Spalt, and appointed Thomas Uher, Peter Kisbenedek, Herbert Juranek and Peter Bosek as new members to the Management Board effective 1

July 2007 until 30 June 2012. Andreas Treichl was again appointed Chairman of the Management Board.

At this meeting, the overall investment plan 2007 was also approved. The planned acquisition of Ukrainian bank Prestige was discussed at a number of meetings.

### **Supervisory Board Committees**

The Management Board Committee approved the payment of annual bonus payments to the Management Board members in accordance with the agreed parameters. The committee has advised the Supervisory Board in detail on the planned succession in the Management Board and drawn up a recommendation for who should sit on the Management Board from 1 July 2007 onward.

The Audit Committee convened for the final discussion on 15 March 2006. At that meeting the financial statements, the company management report and the consolidated financial statements, as well as the management report were discussed, a recommendation of approval of the financial statements made to the Supervisory Board and the recommendation on the appropriation of net profit was noted. Furthermore, the recommendation to put the request to the Annual General Meeting to appoint Ernst & Young Wirtschaftsprüfungsgesellschaft mbH as supplementary auditor for fiscal year 2007 was adopted. The internal audit plan 2006 was reported to the Audit Committee. At its meeting on 13 December 2006, the Audit Committee was informed of the result of the preliminary internal revision and the implementation of the corporate governance code at Erste Bank.

In its 24 meetings, the Risk Management Committee discussed among other things the introduction of the Basel II capital framework at Erste Bank, as well as investments and large-scale investments that are above the authority of the Management Board.

In a number of meetings in the first quarter of 2006, the Strategy Committee took implementing decisions for the capital increase. The annual report on equity interests was presented to the Strategy Committee. In the second half of the reporting year, the planned acquisition of Ukrainian bank Prestige and the new holding structure were the main topics.

### **Financial statements**

The financial statements and company management report, as well as the consolidated financial statements and Group management report for 2006 were audited by the Sparkassen Prüfungsverband as the legally mandated auditor, and by Deloitte Wirtschaftsprüfung GmbH as the supplementary auditor appointed by the Annual General Meeting, and received an unqualified opinion. Representatives from both auditors attended the Supervisory Board's balance sheet 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 now duly established in accordance with sec.125 (2) of the Austrian Stock Corporation Act. The consolidated financial statements and Group management report have been audited and approved.

### **Board members**

Werner Hutschinski, who has sat on the Erste Bank Supervisory Board since 1993, retired from his post at the Supervisory Board at the 13<sup>th</sup> regular Annual General Meeting on 19 May 2006. On behalf of all members of the Supervisory Board, I should like to thank him for his many years of hard work. At the 13<sup>th</sup> regular Annual General Meeting, Gabriele Zuna-Kratky was elected as a new member.

The Supervisory Board should like to thank the Management Board as well as all employees of Erste Bank for their major personal contributions last year.

For the Supervisory Board

**Heinz Kessler**  
President