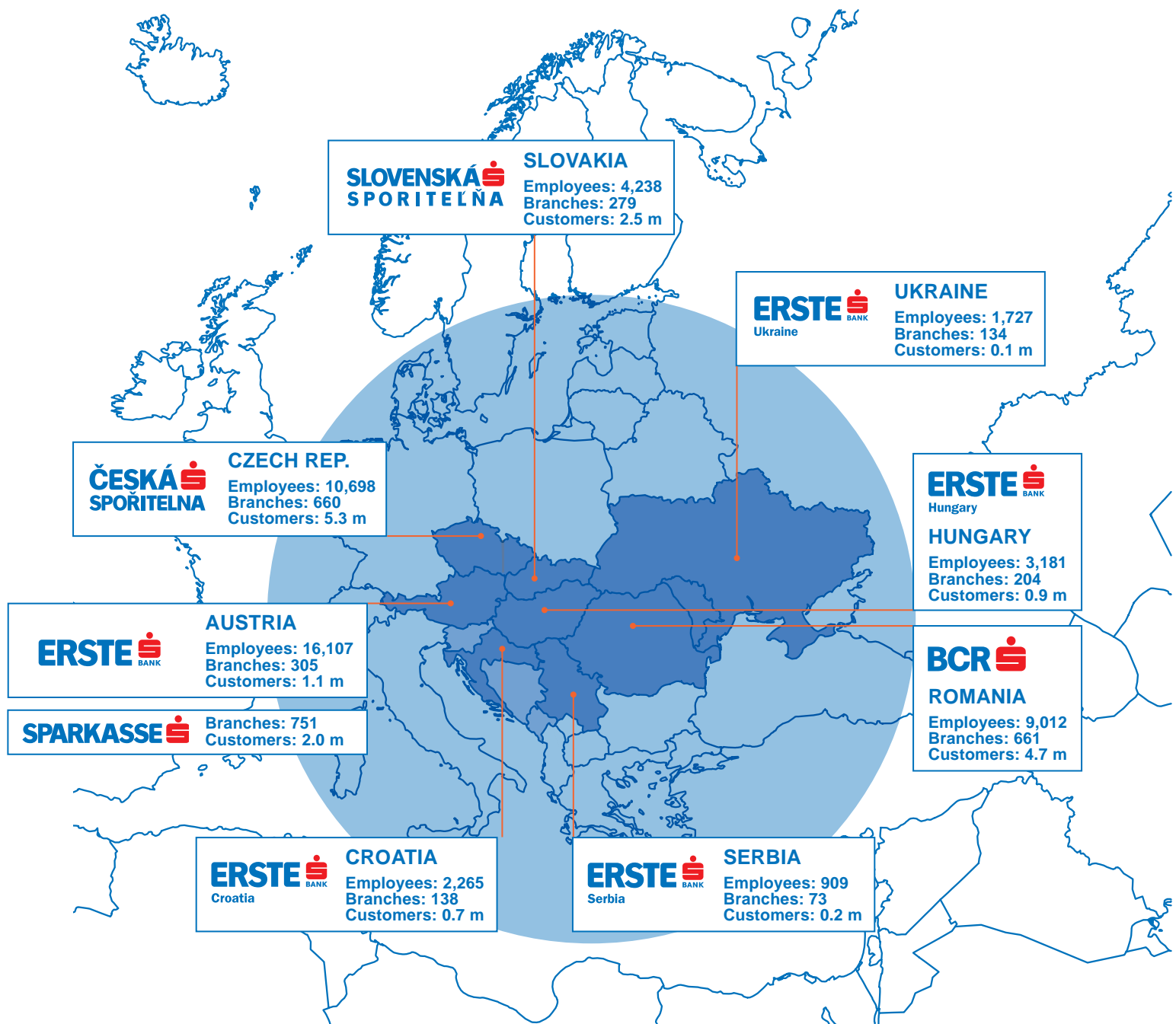
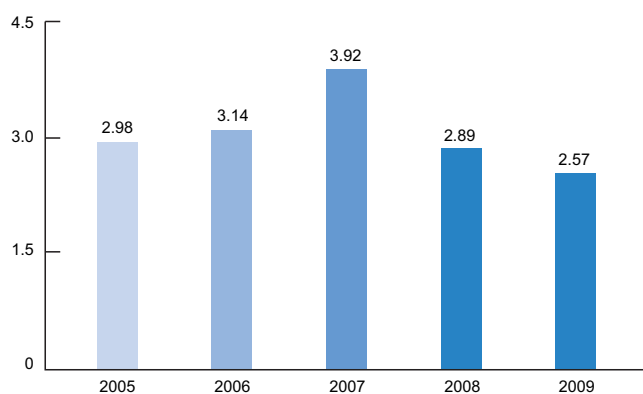


Annual Report 2009

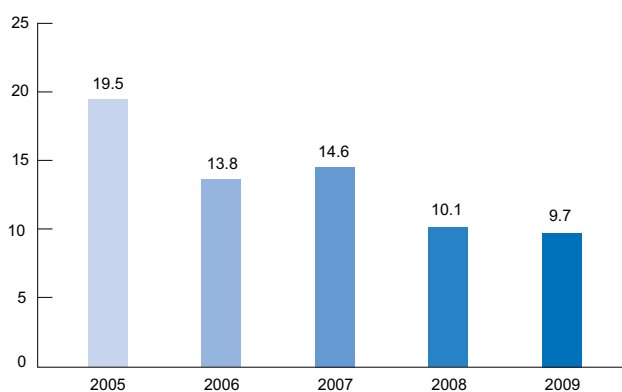
Extensive presence in Central and Eastern Europe



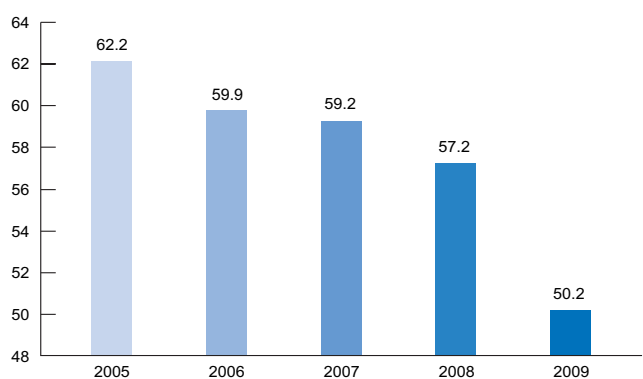
Cash earnings per share in EUR



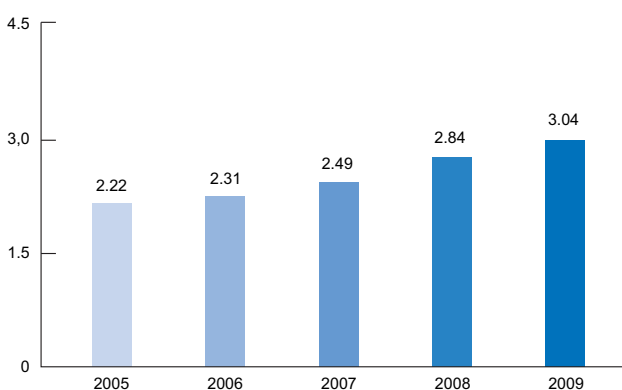
Cash return on equity (in %)



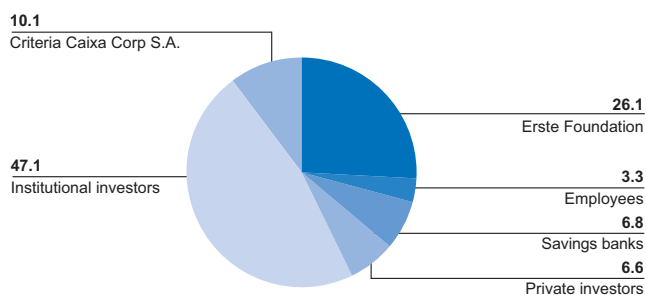
Cost/income ratio (in %)



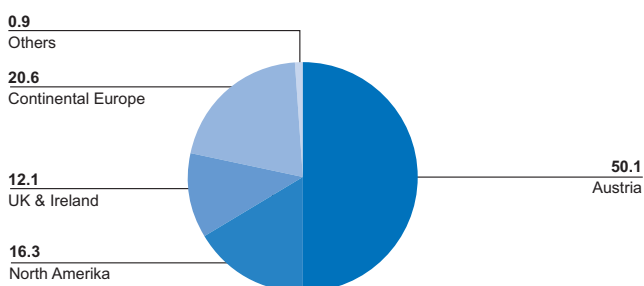
Net interest margin (in %)



Shareholder structure as at 31 December 2009 By investors (in %)



Shareholder structure as at 31 December 2009 By regions (in %)



Ratings as at 31 December 2009

Fitch

Long-term	A
Short-term	F1
Outlook	Stable

Moody's Investors Service

Long-term	Aa3
Short-term	P-1
Outlook	Negative

Standard & Poor's

Long-term	A
Short-term	A-1
Outlook	Negative

INVESTOR RELATIONS

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Key Financial and Operating Data*

EUR million (unless otherwise stated)	2005	2006	2007	2008	2009
Balance sheet					
Total assets	152,681	181,703	200,519	201,441	201,710
Loans and advances to credit institutions	16,858	16,616	14,937	14,344	13,140
Loans and advances to customers	80,419	97,107	113,956	126,185	129,134
Risk provisions for loans and advances	-2,817	-3,133	-3,296	-3,783	-4,954
Securities and other financial assets	39,455	42,497	44,214	41,770	42,884
Other assets	18,766	28,616	30,708	22,925	21,506
Total liabilities and equity	152,681	181,703	200,519	201,441	201,710
Deposits by banks	33,911	37,688	35,165	34,672	26,295
Customer accounts	72,793	90,849	100,116	109,305	112,042
Debt securities in issue, including subordinated capital	25,581	27,024	36,667	36,530	35,760
Other liabilities, provisions	14,017	15,238	17,168	9,839	11,490
Equity attributable to non-controlling interests	2,314	2,925	2,951	3,016	3,414
Equity attributable to owners of the parent	4,065	7,979	8,452	8,079	12,709
Changes in total qualifying capital					
Risk-weighted assets pursuant to section 22 Austrian Banking Act	75,078	94,129	95,091	103,663	106,383
Qualifying consolidated capital pursuant to sections 23 & 34 Austrian Banking Act	8,611	10,111	11,114	11,758	15,772
Core capital (Tier 1)	5,112	6,185	6,674	7,448	11,450
Hybrid capital	900	1,250	1,248	1,256	1,174
Solvency ratio pursuant to section 22 Austrian Banking Act	10.8%	10.2%	10.1%	9.8%	12.7%
Tier 1 ratio (credit risk)	6.8%	6.6%	7.0%	7.2%	10.8%
Income statement					
Net interest income	2,794.2	3,189.3	3,945.8	4,913.1	5,220.9
Risk provisions for loans and advances	-421.6	-439.1	-454.7	-1,071.4	-2,056.6
Net commission income	1,256.8	1,445.9	1,857.9	1,971.1	1,772.8
Net trading result	241.7	277.9	351.1	114.7	585.1
General administrative expenses	-2,670.0	-2,945.3	-3,642.1	-4,001.9	-3,807.4
Operating result	1,622.7	1,967.8	2,512.7	2,997.0	3,771.4
Pre-tax profit	1,185.0	1,486.4	1,892.6	576.2	1,261.3
Net profit after minorities	716.7	932.2	1,174.7	859.6	903.4
Operating data					
Number of employees	36,150	50,164	52,442	52,648	50,488
Number of branches	2,283	2,721	2,908	3,159	3,205
Number of customers (million)	12.4	15.9	16.4	17.2	17.5
Share price and key ratios					
High (EUR)	47.50	59.00	61.50	49.20	31.15
Low (EUR)	36.36	40.40	44.00	13.25	7.00
Closing price (EUR)	47.05	58.10	48.50	16.20	26.06
Price/earnings ratio	16.0	19.7	13.0	6.0	10.8
Dividend per share (EUR)	0.55	0.65	0.75	0.65	0.65
Payout ratio	18.7%	22.0%	20.2%	24.0%	27.2%
Dividend yield	1.2%	1.1%	1.5%	4.0%	2.5%
Book value per share (EUR)	17.1	25.6	27.0	25.8	28.9
Price/book ratio	2.8	2.3	1.8	0.6	0.9
Total shareholder return (TSR)	21.0%	24.7%	-15.4%	-65.1%	64.9%
Number of shares					
Number of shares outstanding	243,183,600	315,296,185	316,288,945	317,012,763	377,925,086
Average number of shares outstanding	240,145,648	300,272,502	312,039,861	313,218,568	322,206,516
Market capitalisation (EUR billion)	11.4	18.3	15.3	5.1	9.8
Trading volume (EUR billion)	8.9	16.8	23.1	29.4	13.3

* The term "net profit after minorities" corresponds to the term "net profit attributable to owners of the parent".

Share price data adjusted for 4:1 share split of 8 July 2004.

Dividend quoted for 2009 is proposal to annual general meeting.

Shares outstanding include Erste Group shares held by savings banks that are members of the Haftungsverbund (cross-guarantee system).

Trading volume as reported by Vienna Stock Exchange, based on single counting.

Highlights

Solid revenue growth despite economic downturn

- _ Net interest income benefits from record margins
- _ Turnaround in net trading result

Excellent cost performance

- _ Operating expenses decline by 4.9% in 2009
- _ Cost/income ratio at best ever level of 50.2%

Risk provisions absorbed by record operating profit

- _ Increase in risk costs driven by CEE
- _ Despite higher risk costs net profit up by 5%

NPL growth slows down in H2 09

- _ NPL ratio rises to 6.6% at year-end 2009
- _ NPL coverage improves to 57.2% in H2 09

Improved liquidity position

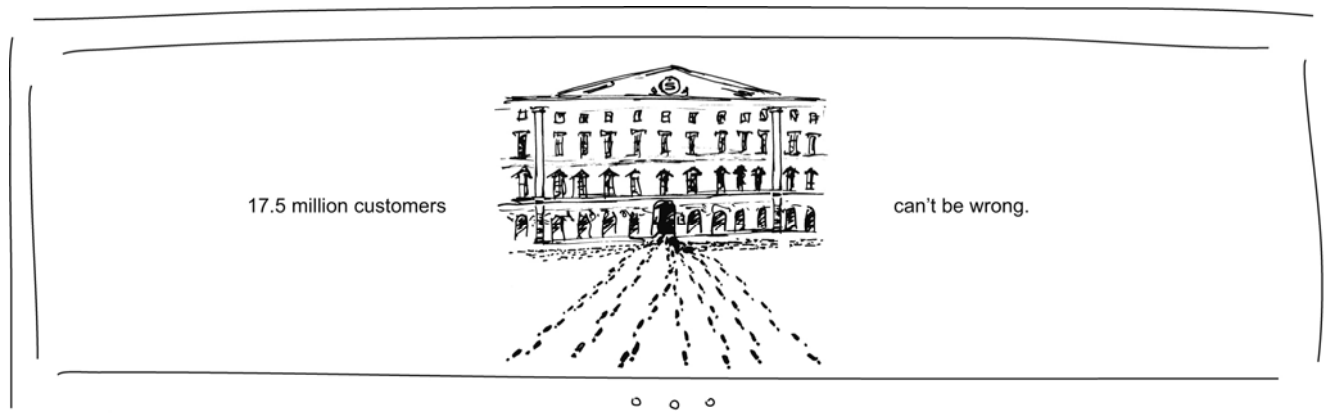
- _ Strong deposit base is key competitive advantage
- _ Reduced reliance on short-term funding

Capital ratios at historic highs

- _ Tier 1 ratio (credit risk) at 10.8% at year-end
- _ Successful issue of new equity and participation capital

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Letter from the CEO

Dear shareholders,

In 2009 we grew revenues, cut costs, improved our capital ratios and enhanced our funding position. We continued to lend, attracted new deposits and worked closely with our retail and corporate customers to assure them of our support in times of need. In short, not even the economic downturn could distract us from our long-standing strategy of being a partner to the real economy in Central and Eastern Europe. Quite to the contrary: it strengthened our resolve to become an even better bank.

This was also reflected in our financials: operating profit grew by 25.8% to a record EUR 3.8 billion, pushing the cost/income ratio to its best ever level of 50.2%. Risk costs nearly doubled in 2009, but were comfortably absorbed by an excellent operating performance. As a result, net profit rose by 5.1% to EUR 903.4 million. The management board of Erste Group will therefore propose an unchanged dividend of EUR 0.65 to the annual general meeting. While we are very proud of growing profitability in difficult economic times, the key achievement of 2009 was the improvement in our capital position: Erste Group's total equity jumped by EUR 5.0 billion to EUR 16.1 billion, thanks mainly to the issuance of new equity and participation capital. All told, we have demonstrated strength during the downturn and feel well equipped for new challenges, may they be regulatory or economic.

Gradually improving market environment

Operating conditions remained unfavourable through 2009. The start to the year was tough, with economic performance sliding fast in Central and Eastern Europe – broadly led by faltering domestic demand – dragging down with it growth in the banking sector. This went hand in hand with a collapse in investor confidence, driven by a downward spiral in stock prices, the rise in CDS spreads and the inevitable spectacle of expert commentators providing – more often than not – media sound bites of dubious quality. Despite the end of the multi-year, vigorous economic expansion, the benefits of which far outweighed its disadvantages and which led to substantially and sustainably higher living standards across Central and Eastern Europe, it is worth remembering a few facts about the region.

Our home market – essentially the eastern part of the European Union – is much more a free market than either Western or Southern Europe. It benefits from lower taxes, a more flexible labour market, the availability of EU structural funds, higher growth potential and

an often distorted, but important fact: from much more sustainable levels of public and private indebtedness. Accordingly, the CEE region should have an edge over its Western and Southern European peers when it comes to future economic growth.

The first, tentative signs of recovery became evident in the second half of 2009. The economies of Central and Eastern Europe started to stabilise, local currencies firmed against the euro and some growth has returned to the banking market. This trend has continued well into the first quarter of 2010. For the full year we expect low single-digit real GDP growth rates across the region and an improving interest rate environment, especially in Romania and Hungary – countries that received substantial support from the EU and IMF during 2009. Another positive for the region is the substantial narrowing of current account deficits: this will lead to a lower dependency on foreign capital and make the recovery more sustainable.

Navigating profitably through the downturn

Let's move to the business of Erste Group. We provide simple and transparent banking services to 17.5 million retail and corporate customers in Central and Eastern Europe. The vast majority of our customers live in the European Union member states of the Czech Republic, Romania, Austria, Slovakia and Hungary as well as Croatia, which is expected to join the EU in the foreseeable future. We are also active in non-EU countries, most notably Serbia and the Ukraine, because we believe in their long-term growth potential, but our presence is small there. This is how we limit the risks, if things go wrong, but can seize opportunities as soon as they arise. Given our footprint we are one of the major providers of banking services to the real economy in Central and Eastern Europe.

Let me tell you more about our performance in 2009. Operating income rose significantly on the back of strong net interest income and a turnaround in net trading result, which more than offset the decline in net commission income. At the same time operating expenses decreased, mainly due to a fall in non-staff costs, resulting in the best cost/income ratio on record. Despite the knock to the banking industry's credibility in the wake of the financial crisis, we retained the trust of our clients and grew deposits faster than loans in the past year. Most notably, this growth was not achieved at the expense of margins. In combination with the repricing of loans to reflect higher funding costs and risk premiums, our overall net interest margin rose to an all-time high of 3.0%.

Our loan book grew only marginally to EUR 129.1 billion but remained well diversified, both geographically and in terms of customer segments: low risk Austria and the Czech Republic made up nearly two-thirds of the portfolio, while households were by far the largest sector. The quality of the loan book deteriorated through to mid-year, with a significant slowdown in NPL formation in the second half of 2009. Consequently, the NPL coverage ratio started to move up again and the increase in risk provisions leveled off. We have confronted the deterioration in asset quality head on, by working closely with those customers who experienced payment difficulties, by improving our collection capabilities and by adjusting our lending standards where necessary.

In addition to coping well with higher risk costs thanks to strong pre-provision profit generation, we have vastly enhanced our capital position during the past year. In spring, we issued EUR 1.8 billion of participation capital to the Republic of Austria and private investors at the same terms, while in autumn we raised straight equity of EUR 1.7 billion through a secondary offering. Combined with the positive movement in the AfS reserve and the retention of profits, Erste Group's total capital jumped by EUR 5.0 billion to EUR 16.1 billion. As risk-weighted asset growth remained muted, the increase in capital led to a proportionate rise in the core tier 1 ratio to 8.3% and in the credit risk-related tier 1 ratio to 10.8%. These levels are unprecedented in the history of Erste Group.

Our capital strength was complemented by our highly favourable funding profile. Customer deposits continued to increase their share of the funding pie, while our dependence on short-term interbank funding decreased markedly and was fully covered by ECB eligible collateral. Our long-term refinancing needs remained equally moderate: in any of the next five years they will not exceed EUR 5 billion. In addition, the continuously rising collateral pool will provide us with the opportunity to increasingly issue covered bonds backed by mortgages as well as municipal debt securities, thereby keeping funding costs well under control.

New banking regulation should support the real economy

Irrespective of our improved funding and capital positions, the discussions about banking regulation and bank taxation took centre-stage in the first quarter of 2010. This was triggered by the release of new proposals by the Basel Committee regarding more stringent capital and liquidity requirements, and the quest of the political cast to find new sources of revenue in order to address rising public debt. While we are very much in favour of an overhaul in regulation that discourages excessive risk taking – the root cause of the financial crisis – and incentivises business with retail and corporate clients, the current proposals are in clear contradiction to the political will for banks to return to their core business, i.e. taking deposits and transforming them into credit for the real economy. Accordingly, we expect political awareness to increase that Basel III as presently set out will seriously impair growth opportunities for the region and companies that have little access to capital markets. We are therefore confident that following a lengthy negotiation period, capital and liquidity requirements for financial institutions that cater to retail and SME customers will be relaxed.

Coming out of the crisis stronger

The past year and a half posed many challenges to banks and their staff. While our retail-focused business model lived up to our high expectations, I am particularly proud of our employees. Not only did they successfully retain the trust of our existing customers, but they also won new clients amid a general climate of distrust towards banks. Our employees also insured that deposits grew faster than loans, that revenues were higher and costs lower than in the previous year, and that our capital and funding position is now much stronger than before the downturn. Going forward, we are optimistic that we can build on our strengths and remain the first port of call for the residents of Central and Eastern Europe.

Andreas Treichl mp



Management Board

Andreas Treichl

Appointed until June 2012

Born in 1952

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

Responsibilities: Group Communications, Group Human Resources, Strategic Group Development, Group Secretariat, Group Audit, Group Marketing, Group Investor Relations, Group Identity, good.bee - banking for the unbanked



Franz Hochstrasser

Appointed until June 2012

Born in 1963

He studied business administration in Graz. In 1992 he joined GiroCredit Bank AG and after the merger with Erste Group in 1997 became member of the management board of the combined entity in 1999. Appointed Deputy Chairman of the Management Board in September 2008..

Responsibilities: Group Research, Group Balance Sheet Management, Group Capital Markets



Manfred Wimmer

Appointed until June 2012

Born in 1956

He studied law in Innsbruck. He started his career with Creditanstalt-Bankverein, Vienna in 1982. He joined Erste Group in 1998. After various senior management positions among others as „Head of Group Architecture and Strategic Group Development“ he was appointed interim CEO of Banca Comercială Română. He became member of the management board as Chief Financial Officer and Chief Performance Officer as of September 2008.

Responsibilities: Group Accounting, Group Performance Management



Bernhard Spalt

Appointed until June 2012

Born in 1968

He studied law in Vienna. He joined Erste Group in 1991 and after various management positions in Austria and the Czech Republic was appointed member of the management board in 2006 as Chief Risk Officer.

Responsibilities: Group Strategic Risk Management, Group Corporate Risk Management, Group Retail Risk Management, Group Legal, Group Compliance



Herbert Juranek

Appointed until June 2012

Born in 1966

He joined Erste Group in 1999 after working for GiroCredit Bank AG and Reuters Ges.m.b.H. Austria. Member of the management board since July 2007.

Responsibilities: Group Organisation & IT, Group Operations/Processing, Group Card Management



JOHANNES LEOBACHER

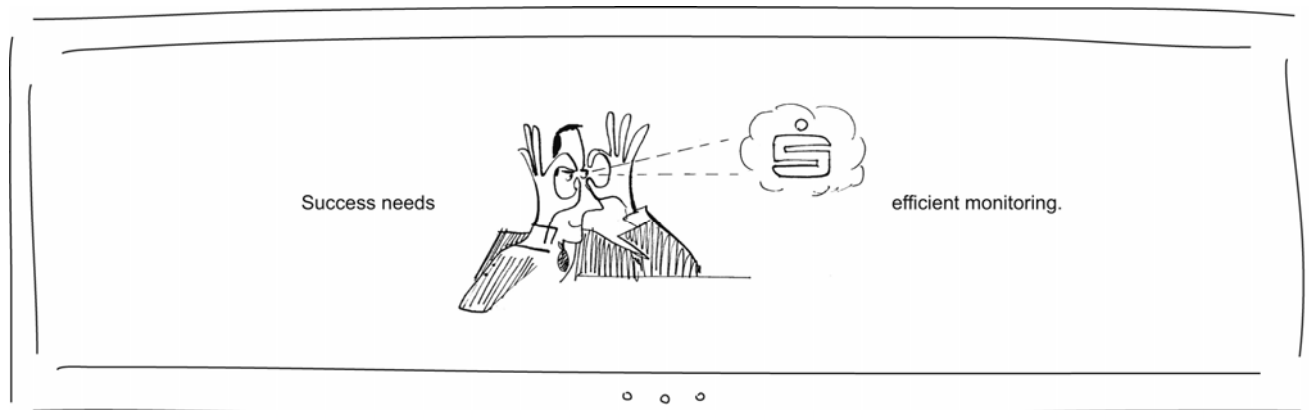
Appointed until June 2012

Born in 1964

After studying Economics and Business Administration he joined GiroCredit Bank AG in 1990. After the merger with Erste Group in 1997 he held various management positions and was appointed member of the board in April 2009.

Responsibilities: Group Real Estate & Leasing, Group Investment Banking, Group Large Corporate Banking, International Business, GCIB Operations





Supervisory Board Report

Dear shareholders,

We were informed promptly and comprehensively throughout the financial year 2009 of the development of business and of the company by the management board in written as well as oral reports at regular meetings. This enabled us to comply with the obligations under law and the articles of association of the company and ascertain the proper conduct of business.

In the financial year 2009, one of the core themes on the supervisory board were the effects of the financial and economic crisis on Erste Group Bank AG and on the subsidiaries in Central and Eastern Europe. To improve the capital base of Erste Group Bank AG, it was resolved to issue participation capital in the first half of the year within the scope of the Austrian government's measures to combat the financial crisis. The participation capital issue amounted to a volume of some EUR 1.2 billion placed with the Republic of Austria and around EUR 540 million placed with private and institutional investors. In the second half of the year 2009, the decision was taken to increase the share capital. In November 2009, 60 million shares were placed with investors, yielding gross proceeds of EUR 1.74 billion.

Disclosures on the qualification and composition of the supervisory board, the period of office of the individual members, the number of meetings, the committees and other topics relating to supervisory board activities have not been included in the report of the supervisory board this time, but rather in the Corporate Governance Report whose publication is required under the new provisions of the Austrian Commercial Code and of the Austrian Code of Corporate Governance for the first time for the financial year 2009.

Financial statements

The financial statements and the management report as well as the consolidated financial statements and group management report for 2009 were audited by Sparkassen-Prüfungsverband as the statutory auditor and also by the additionally appointed auditor Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. and awarded an unqualified audit opinion. Representatives of the two auditors took part in the supervisory board's financial statements review meeting and presented their comments. Based on our own review, we hereby agree with the results of these audits and with the proposal for the distribution of the profit. We approved the financial statements prepared by the management board thereby adopting these pursuant to Article 96 par. 4 Austrian Stock Corporation Act. The management report, group financial statements, group management report and Corporate Governance Report have been acknowledged and accepted.

Changes in board memberships

In March 2009, the supervisory board appointed Johannes Leobacher as successor to the former management board member Johannes Kinsky – who passed away in 2008 and was responsible for Division Group Corporate & Investment Banking – effective as of 1 April 2009 through 30 June 2012 as a new management board member of Erste Group Bank AG.

For the supervisory board:

Heinz Kessler mp
President of the Supervisory Board

Vienna, March 2010

Principles we have found to be true:



transparency and simplicity

o o o

Corporate Governance

Corporate Governance Report

of Erste Group Bank AG pursuant to Section 243b Austrian Commercial Code and Rules 60 et seq of the Austrian Code of Corporate Governance as of 31 December 2009

CODE OF CORPORATE GOVERNANCE

In Austria, the Code of Corporate Governance (CCG) prepared by the Working Group for Corporate Governance under the leadership of the Special Government Representative for the Capital Market has been widely recognized since 1 October 2002. The code is based on voluntary self-imposed obligations and its requirements are more stringent than the legal requirements for stock corporations. The aim is to establish responsible corporate management and accounting oriented on long-term growth that regulates all rights and obligations of all stakeholders – management, supervisory board, customers, staff, shareholders and the public – as well as their relations to each other. The Austrian CCG has the objective of guaranteeing a high degree of transparency for all stakeholders. The rules of the Code are grouped into L rules, which contain the mandatory legal requirements, and C rules, which permit a deviation but need to be explained, as well as R rules, which permit a deviation without requiring an explanation.

The current version of the Austrian CCG is available at the website of the Working Group at www.corporate-governance.at. This website also includes an English translation of the Austrian Code of Corporate Governance and the interpretations of the Working Group.

COMMITMENT TO COMPLY WITH THE RULES OF THE AUSTRIAN CCG

In February 2003, Erste Group Bank AG declared its commitment to comply with the rules of the Austrian Code of Corporate Governance with the objective of ensuring responsible and transparent corporate governance.

In financial year 2009, Erste Group Bank AG complied with all L rules (legal requirement) and R rules (recommendation). The deviation from a “Comply or Explain” rule (C rules) is presented and explained below.

Qualification and Composition of the Supervisory Board 52 (C)

When appointing the supervisory board, the general meeting shall take due care to ensure a balanced composition of the supervisory board with respect to the structure and the business of the company as well as the expertise and the personal qualifications of the supervisory board members. The number of members on the supervisory board (excluding employees’ representatives) shall be ten at most.

Due to the size of the company, the supervisory board of Erste Group Bank AG (excluding employees’ representatives) consists of 12 members. A selection procedure is planned for a representative of retail private shareholders in advance of the elections to the supervisory board at the general shareholders’ meeting 2010.

INFORMATION ON THE MANAGEMENT BOARD PURSUANT TO SECTION 243B PAR. 2 AUSTRIAN COMMERCIAL CODE:

Name, year of birth and date of initial appointment and end of current period of office of each member of the management board:

Andreas Treichl (Chairman)

Born 1952
Member of the management board since 1 October 1994
End of the current period of office: 30 June 2012

Franz Hochstrasser (Vice Chairman)

Born 1963
Member of the management board since 1 January 1999
End of the current period of office: 30 June 2012

Herbert Juranek

Born 1966
Member of the management board since 1 July 2007
End of the current period of office: 30 June 2012

Johannes Leobacher

Born 1964
Member of the management board since 1 April 2009
End of the current period of office: 30 June 2012

Bernhard Spalt

Born 1968

Member of the management board since 1 November 2006

End of the current period of office: 30 June 2012

Manfred Wimmer

Born 1956

Member of the management board since 1 September 2008

End of the current period of office: 30 June 2012

Mandates on supervisory boards or similar functions in other domestic or foreign companies not included in the consolidated financial statements for each member of the management board pursuant to C rule 16 Austrian CCG:

Andreas Treichl

DONAU Versicherung AG Vienna Insurance Group (Vice Chairman)

MAK – Österreichisches Museum für angewandte Kunst (Chairman)

Österreichische Galerie Belvedere

Sparkassen Versicherung AG Vienna Insurance Group (Chairman)

Franz Hochstrasser

Oesterreichische Kontrollbank Aktiengesellschaft (Vice Chairman)

Wiener Börse AG

WBAG Aktiengesellschaft

Herbert Juranek

None

Johannes Leobacher

None

Bernhard Spalt

Österreichische Clearingbank AG (Vice Chairman)

Manfred Wimmer

None

INFORMATION ON THE SUPERVISORY BOARD PURSUANT TO SECTION 243B PAR. 2 AUSTRIAN COMMERCIAL CODE

Name, year of birth and date of initial appointment and end of current period of office of each member of the supervisory board

Heinz Kessler

General Director, ret.

Born 1938

Supervisory board member since 26 May 1998

End of the current period of office: AGM 2012

Georg Winckler

Born 1943

Rector of the University of Vienna

Professor for economic sciences at the University of Vienna

Supervisory board member since 27 April 1993

End of the current period of office: AGM 2010

Theresa Jordis

Born 1949

Attorney at law

Supervisory board member since 26 May 1998

End of the current period of office: AGM 2013

Bettina Breiteneder

Born 1970

Entrepreneur

Supervisory board member since 4 May 2004

End of the current period of office: AGM 2014

Elisabeth Gürtler

Born 1950

Entrepreneur

Supervisory board member since 26 May 1998

End of the current period of office: AGM 2010

Jan Homan

Born 1947

General Director Teich AG

Supervisory board member since 4 May 2004

End of the current period of office: AGM 2014

Brian D. O'Neill

Born 1953

Vice Chairman Lazard International

Supervisory board member since 31 May 2007

End of the current period of office: AGM 2012

Juan Maria Nin Génova

Born 1953

President and CEO “la Caixa”

Supervisory board member since 12 May 2009

End of the current period of office: AGM 2014

Wilhelm Rasinger

Born 1948

Consultant

Supervisory board member since 11 May 2005

End of the current period of office: AGM 2010

Friedrich Rödler

Born 1950

Auditor and tax advisor

Supervisory board member since 4 May 2004

End of the current period of office: AGM 2014

John James Stack

Born 1946
President and CEO, ret.
Supervisory board member since 31 May 2007
End of the current period of office: AGM 2012

Werner Tessmar-Pfohl

Born 1942
Entrepreneur, ret.
Supervisory board member since 6 May 2008
End of the current period of office: AGM 2013

Gabriele Zuna-Kratky

Born 1957
Director of Technical Museum Vienna
Supervisory board member from 19 May 2006 to 12 May 2009

Delegated by the staff council:

Christian Havelka

Born 1966
Supervisory board member since 31 October 2001
End of the current period of office: until withdrawn

Andreas Lachs

Born 1964
Supervisory board member since 9 August 2008
End of the current period of office: until withdrawn

Friedrich Lackner

Born 1952
Supervisory board member since 24 April 2007
End of the current period of office: until withdrawn

Bertram Mach

Born 1951
Supervisory board member since 9 August 2008
End of the current period of office: until withdrawn

Barbara Smrcka

Born 1969
Supervisory board member since 9 August 2008
End of the current period of office: until withdrawn

Karin Zeisel

Born 1961
Supervisory board member since 9 August 2008
End of the current period of office: until withdrawn

Chairman and Vice Chairman of the supervisory board

Heinz Kessler	President
Georg Winckler	1st Vice President
Theresa Jordis	2nd Vice President

Membership in the committees of the supervisory board, stating the function as chairperson (C rule 39 Austrian CCG)

Heinz Kessler

Committee for Management Board Matters (Chair)
Audit Committee (Chair)
Risk Management Committee
Strategy Committee (Chair)

Georg Winckler

Committee for Management Board Matters
Audit Committee
Risk Management Committee
Strategy Committee

Theresa Jordis

Committee for Management Board Matters
Audit Committee
Risk Management Committee
Strategy Committee

Bettina Breiteneder

Audit Committee (Substitute)
Risk Management Committee

Elisabeth Gürtler

Risk Management Committee

Jan Homan

Audit Committee
Risk Management Committee (Substitute)
Strategy Committee

Juan Maria Nin Génova

Strategy Committee

Wilhelm Rasinger

Audit Committee
Risk Management Committee (Substitute)
Strategy Committee (Substitute)

Friedrich Rödler

Audit Committee
Risk Management Committee (Chair)
Strategy Committee

Gabriele Zuna-Kratky

Strategy Committee (until 12 May 2009)

Delegated by the staff' council:

Christian Havelka

Audit Committee
Risk Management Committee (Substitute)
Strategy Committee

Andreas Lachs

Audit Committee (Substitute)
Risk Management Committee
Strategy Committee (Substitute)

Friedrich Lackner

Audit Committee
Strategy Committee

Bertram Mach

Risk Management Committee
Strategy Committee

Barbara Smrcka

Audit Committee

Karin Zeisel

Risk Management Committee

Mandates in supervisory boards or similar functions in other foreign and domestic companies for each supervisory board member (listed companies are marked with “**”)

Heinz Kessler

Austria Versicherungsverein auf Gegenseitigkeit Privatstiftung (Vice Chair)
Česká spořitelna, a.s. (Vice Chair)
DIE ERSTE österreichische Spar-Casse Privatstiftung
Erste Bank der oesterreichischen Sparkassen AG (Vice Chair)
Nettingsdorfer Papierfabrik Management AG (Chair)
Rath Aktiengesellschaft* (Chair)
Reform-Werke Bauer & Co. Gesellschaft m.b.H. (Chair)
Reform-Werke Bauer & Co. Holding Aktiengesellschaft (Chair)

Georg Winckler

Austria Versicherungsverein auf Gegenseitigkeit Privatstiftung (Chair)
DIE ERSTE österreichische Spar-Casse Privatstiftung (Vice Chair)
Educational Testing Service, Princeton/New Jersey (Board of Trustees)
Innovationszentrum Universität Wien GmbH
Steiermärkische Bank und Sparkassen Aktiengesellschaft
UNIQA Versicherungen AG* (Vice Chair)

Theresa Jordis

Miba Aktiengesellschaft* (Chair)
Mitterbauer Beteiligungs – Aktiengesellschaft (Chair)

Prinzhorn Holding GmbH (Chair)
Wolford Aktiengesellschaft* (Chair)
Austrian Airlines AG*

Bettina Breiteneder

ZS Einkaufszentren Errichtungs- und Vermietungs-Aktiengesellschaft

Elisabeth Gürtler

Kongresszentrum Hofburg BetriebsgesmbH
Oesterreichische Nationalbank (General Council)

Jan Homan

Allianz Elementar Versicherungs-Aktiengesellschaft
Alucommerz AG
Constantia Colmar Inc.

Brian D. O'Neill

El Museo del Barrio (Board of Trustees)
David Rockefeller Center for Latin American Studies (Advisory Council)
Council of the Americas and the Americas Society (Dir.)

Juan Maria Nin Génova

Academic Board, APD
Circulo Ecuestre (BoD)
Criteria Caixacorp, S.A.* (Deputy Chairman)
Gas Natural* (BoD)
Grupo Segurcaixa Holding (Insurances)
Deusto University (BoD)
Deusto Business School (BoD)
Economic Group, Spain-China Forum
Esade Business School Foundation (Trustee)
Federació Catalana de Caixes d'Estalvis (Secretary)
Federico Garcia Lorca Foundation (Trustee)
Repsol YPF* (BoD)
Banco BPI, S.A.* (Portugal) (BoD)
Grupo Financiero Inbursa, S.A.B. DE C.V.* (Mexico) (BoD)
“la Caixa” Foundation (Deputy Chairman)
Spain-India Council Foundation (Deputy Chairman)
Spain-United States Council Foundation

Wilhelm Rasinger

CEE Immobilien Development AG
Friedrichshof Wohnungsgenossenschaft reg. Gen.m.b.H. (Chair)
Wienerberger AG*

Friedrich Rödler

Erste Bank der oesterreichischen Sparkassen AG

John James Stack

ShoreBank International
Mutual of America
American Friends of the Czech Republic
Fund for Peace

Werner Tessmar-Pfohl

Sattler AG (Chair)

Steiermärkische Bank und Sparkassen Aktiengesellschaft (Chair)

Teufelberger Holding Aktiengesellschaft (Vice Chair)

Gabriele Zuna-Kratky

Erste Bank der oesterreichischen Sparkassen AG

(since 25 March 2009)

Delegated by the staff council:

Friedrich Lackner

DIE ERSTE österreichische Spar-Casse Privatstiftung

Christian Havelka

None

Andreas Lachs

None

Bertram Mach

None

Barbara Smrcka

None

Karin Zeisel

None

PRESENTATION OF THE CRITERIA DEFINED BY THE SUPERVISORY BOARD FOR INDEPENDENCE PURSUANT TO C RULE 53 OF THE AUSTRIAN CCG

The supervisory board of Erste Group Bank AG defined the guidelines set out in Annex 1 of the Austrian Code of Corporate Governance as independence criteria at its meeting of 15 March 2006:

Guidelines for Independence

A member of the supervisory board is deemed to be independent if such person does not have any business or personal relations with the company or its management board and these relations would constitute a conflict of interest, and therefore, would be suited to influence the behaviour of a member.

- The supervisory board member is not permitted to have been a member of the management board or a managing employee of the company or a subsidiary of the company in the past five years.
- The supervisory board member should not have any business relations with the company or a subsidiary of the company to an extent of significance for the supervisory board member or in the past year. This shall also

apply to business relations with companies in which the supervisory board member has a material economic interest, but not for carrying out functions on the bodies of the Group. The approval of individual transactions by the supervisory board pursuant to L rule 48 does not automatically qualify the respective supervisory board member as not being independent.

- The supervisory board member should not have served as auditor for the company or have been involved in an audit or worked as an employee of the auditing firm in the past three years.
- The supervisory board member should not have been a management board member at another company in which a member of the management board of the company is on the supervisory board of said company.
- The supervisory board member should not have been a member of the supervisory board for more than 15 years. This does not apply to members of the supervisory board that are shareholders with stakes in the company or that represent the interests of such shareholders.
- The supervisory board member should not be a close family relation (children, spouse, life partner, parent, uncle, aunt, sibling, niece, nephew) of a member of the management board or of persons that are in one of the aforementioned positions.

Presentation which members are deemed independent in the meaning of C rule 53 of the Austrian CCG

Based on the above mentioned criteria, all members of the supervisory board have declared their independence with the exception of one. John James Stack declared that he is not independent in the meaning of the criteria defined due to his position as chairman of the board of Česká spořitelna until May 2007.

PRESENTATION OF WHICH MEMBERS OF THE SUPERVISORY BOARD MEET THE CRITERIA OF C RULE 54

Only four members of the supervisory board hold a function on a body of a company that owns over 10% of the shares in Erste Group Bank AG (Kessler, Winckler, Lackner, Nin); additionally, in 2009, two members (Gürtler, Rasinger) represented, above all, the interests of retail shareholders.

NOTE IF A MEMBER OF THE SUPERVISORY BOARD FAILED TO PERSONALLY ATTEND MORE THAN HALF OF THE MEETINGS OF THE SUPERVISORY BOARD IN THE REPORTING YEAR (C RULE 58 AUSTRIAN CCG)

With the exception of one member delegated by the staff council, all members personally attended at least half of the meetings.

Object and remuneration of contracts subject to approval pursuant to Section 95 par. 5 fig. 12 Stock Corporation Act (C rule 49 Austrian CCG)

The firm DORDA BRUGGER JORDIS Rechtsanwälte GmbH, in which Theresa Jordis is a partner, invoiced companies of Erste Group for consulting work for an amount of EUR 409,175.93 in 2009. Friedrich Rödler is Senior Partner at PricewaterhouseCoopers Österreich. Companies of this group billed companies of Erste Group for consulting work in an amount of EUR 108,617.43 in 2009.

INFORMATION ON THE WORKING METHODS OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD PURSUANT TO SECTION 243B PAR. 2 AUSTRIAN COMMERCIAL CODE:

Management Board

The management board of Erste Group Bank AG manages the company on its own responsibility. Its purpose is to pursue the welfare of the company and the interests of the shareholders and employees. The management board develops the strategic orientation of the company and accords it with the supervisory board. It ensures an effective risk management and risk control. The management board reaches its decisions taking into account all relevant legal provisions, the rules of the articles of association and its internal rules of procedure.

Supervisory Board

The supervisory board advises the management board in its strategic planning and actions. It takes part in the decisions as stipulated by law, the articles of association and its internal rules of procedure. The supervisory board has the task of supervising the management board in the management of the company.

DISTRIBUTION OF AREAS OF COMPETENCE IN THE MANAGEMENT BOARD (C RULE 16 AUSTRIAN CCG)

Andreas Treichl (Chairman)

Group Communications, Group HR, Strategic Group Development, Group Secretariat, Group Audit, Group Marketing, Group Investor Relations, Group Identity, good.bee – banking for the unbanked

Franz Hochstrasser (Vice Chairman)

Group Research, Group Balance Sheet Management, Group Capital Markets

Herbert Juranek

Group Org/IT, Group Operations/Processing, Group Card Management

Johannes Leobacher

Group Real Estate & Leasing, Group Investment Banking, Group Large Corporates Banking, International Business, GCIB Operations

Bernhard Spalt

Group Strategic Risk Management, Group Corporate Risk Management, Group Retail Risk Management, Group Legal, Group Compliance

Manfred Wimmer

Group Accounting, Group Performance Management

NUMBER AND TYPE OF COMMITTEES OF THE SUPERVISORY BOARD AND THEIR DECISION-MAKING POWERS (C RULE 34 AUSTRIAN CCG)

The supervisory board has set up a risk management committee, a strategy committee, an audit committee and a committee for management board matters.

Risk Management Committee

The risk management committee is responsible for granting approval in all those cases in which loans and exposures or large exposures reach an amount exceeding the approval authority of the management board according to the approval authority regulation. It is charged with granting approval to exposures or large exposures pursuant to section 27 of the Banking Act, if such an investment to credit institutions exceeds 10% of the own funds of Erste Group Bank or if the investment amounts to at least 10% of the consolidated own funds of the banking group. Within the competence assigned to it, the committee may grant advance approvals to the extent permitted by law. In addition it is responsible for the supervision of the risk management of Erste Group Bank AG.

Strategy Committee

In connection with the strategic positioning of Erste Group Bank, the strategy committee is responsible for the preparation of and comments on all matters which are brought to the attention of the supervisory board, unless they are assigned to other committees. Furthermore, it is in charge of scrutinising the budget, acknowledging the reports of the individual business units and the reports on business performance, determining investment policy, and setting key strategic goals for the company. The supervisory board delegated to the committee the right of approval of the establishment and closing of branches; the right of approval of the granting of special statutory power of attorney (Prokura) or commercial power for the entire operation of the business; the right of approval for entering into agreements between employers and staff councils and for the determination of guidelines for staff policy and salary policy. The committee is also responsible for overseeing the company's portfolio of participations.

Audit Committee

The audit committee is responsible for the supervision of the accounting process; the supervision of the effectiveness of the internal controlling system, the internal audit system and the risk management system; the supervision of the annual audit and the annual group audit; reviewing and supervising the qualification and the independence of the auditor (group auditor); reviewing and preparing the approval of annual financial statements, the proposal for the distribution of profits, the status report and the corporate governance report and submitting a report on the results of the review to the supervisory board; reviewing the consolidated financial statements of Erste Group and the group status report; the preparation of the supervisory board's proposal for the selection and revocation of the auditor; the conclusion of the contract with the appointed auditor on the execution of the annual audit and the agreement on the auditor's remuneration; acknowledging prompt information on the focal points of the audit and the right to submit proposals for additional focal points of the audit; acknowledging the inspection plan of the Company's internal audit; acknowledging information on current matters relevant for the internal audit of the Erste Group and on the efficiency and effectiveness of the internal audit; acknowledging the internal auditors' report on the areas of inspection and important findings on the basis of inspections made and the activity report pursuant to § 20 in connection with § 21 para 2 of the Austrian Securities Supervisory Act ("Wertpapieraufsichtsgesetz"); acknowledging immediate information on important findings of the auditor, the internal audit or an inspection by a regulatory authority; acknowledging immediate information on damages, which could exceed 5% of the consolidated equity or 10% of the budgeted net result; acknowledging reports of the management board on current developments in the fields of corporate governance and anti-money laundering, and the status of compliance; acknowledging the compliance activities report.

Committee for Management Board Matters

According to rule 43 of the CGC the compensation committee in Erste Group Bank is identical with the nomination committee and has been named "committee for management board matters". The committee for management board matters shall deal with and decide on relationships between Erste Group Bank AG and members of the management board with the exception of resolutions on appointment or revocation of appointment of management board members as well as the granting of stock options of the company.

Information on the number of meetings of the supervisory board during the reporting year and report on the focus of its activities:

There were seven meetings of the supervisory board in 2009.

At each ordinary meeting of the supervisory board the monthly developments of the balance sheet and the income statement were presented, the current market risk, risk bearing capacity and the status of individual subsidiary banks in Central and Eastern Europe were reported.

Based on the resolution of the general meeting of 2 December 2008, a resolution of the management board was passed outside of a meeting in February with the approval of the supervisory board to obtain participation capital with a total volume of up to EUR 2.7 billion and the management board was authorized – with the approval of the strategy committee – to finalize the negotiations with the federal government and fix the terms and the subscription form for participation certificates. On 30 March 2009, the financial statements and management report 2008 as well as the consolidated financial statements and management report 2008 were audited, the financial statements 2008 were confirmed in accordance with the recommendation of the audit committee, and the proposal for the distribution of the profit 2008 approved. At this meeting, Johannes Leobacher who had served as head of Group Capital Markets at Erste Group Bank AG since 1999 was appointed member of the management board effective 1 April 2009 until 30 June 2012 in the function as Head of Division Group Corporate and Investment Banking. Furthermore, a report on the situation in Eastern Europe and on the current status of the government banking package was given. The annual compliance report was submitted. At the constituent meeting on 12 May 2009 after the general meeting, the resolution was passed on the appointments to the committees of the supervisory board and on the distribution of the remuneration for the supervisory board decided at the general meeting.

On 22 June 2009, among other topics, the report on equity holdings 2008 and the first quarter 2009 were discussed. At the meeting of 27 July 2009, the mid-year report 2009 was presented and the investments of Erste Group Bank AG in its banks in Central and Eastern Europe were discussed. On 16 September 2009, the strategic planning of Erste Group Bank AG was discussed extensively and in this context the general decision reached to carry out a capital increase. The supervisory board meeting of 29 October 2009 was briefed on the results of the third quarter 2009 and a further, amended general resolution on a capital increase by issuing up to 60,000,000 new shares was reached. The strategy committee was authorized to take the required decision for execution. On 16 December 2009, the budget and the investment plan 2010 of Erste Group Bank AG were approved and the Group projections were discussed. Directors' dealings were reported and an annual report on major investments was given.

Information on the number of meetings of committees during the reporting year and report on their activities:

The risk management committee regularly took decisions at its 17 meetings in 2009 on investments and loans exceeding the powers of the management board and was briefed on loans granted within the scope of power of the management board. The supervisory board received the annual report on foreign currency loans and repayment vehicles on market risk, and was regularly informed of market risk, risk exposure tolerance and structured finance. Special reports were submitted on the measures to avoid unauthorised trading activities, on the newly organised retail risk management of Erste Group Bank AG; on the liquidity situation, the stress scenarios of subsidiary banks in CEE, the national and European stress tests, on the measures to reduce risk-weighted assets and to optimise capital, and on the real estate portfolio.

The strategy committee met six times in 2009. At the meetings on 25 and 26 February 2009, the strategy committee dealt mainly with the government banking package. On 26 February, it authorized the management board to enter into a general agreement with the federal government in the version as presented at said meeting. On 15 April 2009, the strategy committee dealt intensely with the agenda and motions for the annual general meeting 2009. At the meeting of 27 May 2009, among others, a report was presented on issuance of participation capital almost completed at the time. The main topic of the meeting on 2 September 2009 was strategic planning. At the last meeting of the year, on 16 November 2009, the decision for execution was taken with respect to the amount of the capital increase, the number of new shares to be issued and on the final offer and subscription price.

The audit committee met four times in the year 2009. On 25 February 2009, the preliminary single-entity and consolidated financial statements 2008 were on the agenda; the auditors reported on the status of the auditing of the single-entity and consolidated financial statements. Contingent on the approval of the supervisory board, the decision was taken to propose the appointment of Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. to the general meeting as additional (Group) auditor for the financial year 2010. The supervisory board approved this proposal on 30 March 2009.

On 30 March 2009, the audit committee conducted the final discussion. The single-entity financial statements and the management report as well as the consolidated financial statements and management report were audited and recommended to the supervisory board for acceptance of the financial statements, and the proposal of the management board for the distribution of the net profit for the financial year 2008 was acknowledged. The head of the internal audit department reported on the areas audited and the key findings of the audit for the year 2008 and explained the audit plan 2009. On 29 July 2009, among others, a report of the internal audit department pursuant to Section 42 par. 3 Banking Act was presented. At the meeting of 2 December 2009, the bank auditors reported on the results of the preliminary audit and of the focus of their audit. The

audit committee issued the instructions to obtain an estimate for the audit of the (consolidated) financial statements 2011.

The committee on management board matters met three times in 2009. Two meetings were held in March that dealt with the appointment of a member to the management board. The nomination of Johannes Leobacher was confirmed by the supervisory board at its meeting of 30 March 2009. At the meeting of 22 June 2009, the proposals of the management board on the voluntary reduction of management board remunerations were taken note of.

DISCLOSURE OF INFORMATION ON THE REMUNERATION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD (C RULES 30 AND 31 AUSTRIAN CCG):

[Principles applying to the performance-linked components of the management board remuneration, criteria for the performance-linked components, major changes versus the previous year](#)

The total compensation of management board members has been defined bearing in mind a reconciliation with the interests of shareholders as far as possible, and is presented in detail in the Notes. The compensation consists of a fixed basic salary, a performance-linked bonus and other remunerations. The criteria for the profit participation of the management board members is net profit and the result of a leadership appraisal, and for the management board members with division competence also the attainment of the business goals defined by the supervisory board.

As of financial year 2010, the criteria, apart from net profit, for the cash bonus will include: the increase in the core tier 1 ratio (total risk) adjusted for participation capital, the non-performing loans coverage ratio, the cost/income ratio and the result of the leadership appraisal. Additionally, a long-term incentive programme has been introduced which is based on changes in the stock price of Erste Group Bank AG versus the group of peers and the Dow Jones Euro Stoxx Banks, with payout being exclusively in shares after a vesting period.

The maximum bonus is currently 200% for the CEO, for management board members responsible for divisions 300%, and for the other management board members 100% of the gross annual salary, and is only paid out in this amount if the net profit for the financial year 2009 reaches EUR 1,150 million (actual result: EUR 903 million), the division targets are achieved and the leadership appraisal results are at least 4.6 of 5 possible points.

Remuneration of the management board members

in EUR thousand	Bonus for the year 2008	Salary for the fiscal year 2009	Other compensation for the year 2009	Total 2009 (incl. bonus for the year 2008)
Managing board member				
Andreas Treichl	0	1,036	448	1,484
Franz Hochstrasser	0	579	144	723
Herbert Juranek	0	579	54	633
Johannes Leobacher, since 1 April 2009	0	427	40	467
Bernhard Spalt	0	579	54	633
Manfred Wimmer	0	579	152	731

Principles of the pension scheme for management board members

The members of the management board participate in the defined contribution pension plan of Erste Group according to the same principles as the employees of the Group. If a management board member's tenure ends before he or she reaches the age of 65 by no fault of the member, then for three of the six management board members the corresponding compensatory payments are made to the pension fund.

Principles for eligible time periods and benefit entitlements of the management board members in the case of termination of the position

Regarding benefit entitlements of management board members in the event of termination of their position, the standard legal termination benefit conditions of Section 23 of the Salaried Employees Act apply for three members of the management board. All other members of the management board are not entitled to receive any termination benefits.

Directors and officers insurance

A directors and officers insurance policy exists for the members of the management board paid for by Erste Group Bank AG.

Disclosure of remuneration paid to each member of the supervisory board in 2009 (C rule 51)

in EUR thousand	Supervisory Board compensation	Meeting fees	Total
Supervisory Board member			
Heinz Kessler	50	15	65
Georg Winckler	38	13	51
Theresa Jordis	38	11	49
Bettina Breiteneder	25	9	34
Elisabeth Gürtler	25	7	32
Jan Homan	25	7	32
Brian Deveraux O'Neill	0	3	3
Wilhelm Rasinger	25	13	38
Friedrich Rödler	25	16	41
Hubert Singer until 6 May 2008	8 ¹⁾	0	8
John James Stack	25	2	27
Werner Tessmar-Pfohl	17	3	20
Gabriele Zuna-Kratky	25	1	26
Juan Maria Nin Genova, since 12 May 2009	0	3	3
Christian Havelka	0	8	8
Friedrich Lackner	0	7	7
Andreas Lachs	0	13	13
Bertram Mach	0	11	11
Barbara Smrcka	0	3	3
Karin Zeisel	0	10	10

1) Compensation was not paid out.

REPORT ON THE EXTERNAL EVALUATION

In 2006, for the first time, Erste Group Bank AG conducted an external evaluation of compliance with the Code of Corporate Governance for 2005. In April 2009, a voluntary external evaluation was completed for the financial year 2008. The two evaluations arrived at the results that Erste Group Bank AG complied with all of the rules of the Code. The summaries of the reports on these evaluations are available on the website of Erste Group Bank AG.

SHAREHOLDERS' RIGHTS

Voting rights

Each share of Erste Group Bank AG entitles its holder to one vote at the shareholders' meeting. In general, shareholders may pass resolutions at a shareholders' meeting by a simple majority of the votes cast or, in the event that the majority of the share capital present is required to approve a measure, by a simple majority of the share capital present, unless Austrian law or the articles of association require a qualified majority vote.

The articles of association differ from the statutory majority requirements in three cases. First, the appointment of supervisory board members can be revoked before the end of their respective term by a resolution of the shareholders' meeting, which requires a majority of 75% of the votes cast and a majority of 75% of the share capital present at such meeting. Second, the articles of association may be amended, provided that such amendment does not concern the business purpose, by a resolution of the shareholders' meeting, which requires a simple majority of the votes cast and a simple majority of the share capital present at such meeting. Third, each provision regulating increased majority requirements can only be amended with the same increased majority.

Dividend rights

Each shareholder is entitled to receive dividends, if and to the extent the distribution of dividends is resolved by the annual shareholders' meeting.

Liquidation proceeds

In case of dissolution of Erste Group Bank AG, the assets remaining after the discharge of liabilities and supplementary capital will be distributed pro-rata to the shareholders and the holders of participation capital securities. The dissolution of Erste Group Bank requires a majority of at least 75% of the share capital present at a shareholders' meeting.

Subscription rights

In principle, holders of shares have subscription rights allowing them to subscribe to any newly issued shares to maintain their existing share in the share capital of Erste Group Bank. Such subscription rights are in proportion to the number of shares held by such shareholders prior to the issue of the new shares. The aforementioned subscription rights do not apply if the respective shareholder does not exercise his or her subscription rights, or the subscription rights are excluded by a resolution of the shareholders' meeting or a

resolution of the management board and the supervisory board in certain cases.

The Austrian Stock Corporation Act contains provisions that protect the rights of individual shareholders. In particular, all shareholders must, under equal circumstances, be treated equally, unless the affected shareholders have consented to unequal treatment. Furthermore, measures affecting shareholders' rights, such as capital increases and the exclusion of subscription rights, generally require a shareholders' resolution.

The articles of association of Erste Group Bank AG do not contain any provisions regarding a change in the share capital or the rights associated with the shares or the exercise of the shareholders' rights that differ from statutory requirements.

Stock corporations like Erste Group Bank AG must hold at least one shareholders' meeting per year (ordinary shareholders' meeting), which must be held within the first eight months of any business year and must cover at least the following issues:

- **Presentation of certain documents;**
- **Distribution of the annual profit;**
- **Approval of the actions of the management board and the supervisory board for the preceding business year.**

Vienna, 2 March 2010
Management Board

Andreas Treichl mp
Chairman

Franz Hochstrasser mp
Vice Chairman

Manfred Wimmer mp
Member

Johannes Leobacher mp
Member

Bernhard Spalt mp
Member

Herbert Juranek mp
Member

ADDITIONAL CORPORATE GOVERNANCE PRINCIPLES

Compliance

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

Directors’ dealings

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

Transparency

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

Risk management

Erste Group’s approach to risk management seeks to achieve the best balance between risks and returns for earning a sustained high

return on equity. A detailed report on risk policy, risk management strategy and organisation, as well as a thorough discussion of the individual risk categories, are found in the Notes beginning on page 130. In addition, credit risk is analysed in detail in a separate section from page 47 onwards, in the “Segments” section of this report.

Accounting and auditors

The company financial statements, company management report, consolidated financial statements and group management report of Erste Group Bank AG for the financial year 2009 were audited by Sparkassen-Prüfungsverband as the legally mandated auditor and by Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H., appointed by the annual general meeting as the supplementary auditor.

FINANCIAL CALENDAR

Date	Event
30 April 2010	Q1 2010 results
12 May 2010	Annual general meeting
14 May 2010	Record date
17 May 2010	Ex-dividend day
19 May 2010	Dividend payment day
28 May 2010	Dividend payment day – Participation Capital
30 July 2010	H1 2010 results
29 October 2010	Q3 2010 results

As the financial calendar is subject to change, please check Erste Group’s website for the most up-to-date version. (www.erstegroup.com/investorrelations).

Every relationship is



about people.

Corporate Social Responsibility

INTRODUCTION

Corporate social responsibility is a firmly established reality at Erste Group. It goes back to the origins of the savings banks, which have always seen themselves as being guided by the common good, and has been growing from year to year along with the company.

CSR is the corporate philosophy with the clear objective of sustainable value generation. This objective can only be achieved if two criteria are met: On the one hand, taking into account the opportunities and risks that result from the economic, ecological and social challenges, and on the other hand, the inclusion of all relevant stakeholders such as customers, employees, investors and civil society.

In 2009, these efforts were rewarded by the excellent third place in the CSR Austria ranking that evaluates the sustainable behaviour of the 100 largest Austrian companies. In Romania BCR won the "Good CSR" award for applying the best CSR standards and practices, in Hungary Erste Bank Hungary was ranked third in the Mastercard Financial Corporate Social Responsibility Award, and in Serbia Erste Bank Serbia received the VIRTUS Corporate Philanthropy Award for the third consecutive time.

CUSTOMERS

Customer satisfaction is of key importance to Erste Group. Accordingly, the bank undertakes many efforts to continuously improve service quality. In 2009 it introduced group standards for service quality in order to ensure a consistent level of service capabilities among all subsidiaries. More specifically, clear descriptions and definitions for dealing with customer complaints, customer satisfaction measurement or critical customer interaction were established.

Retail customers

In addition to regular measures aimed at improving the retail customer experience, in 2009 Erste Group paid special attention to supporting its customers through the economic downturn. Under the theme of "Helping Hands" almost all subsidiaries introduced measures to help customers cope with tighter budgets, unemployment or a general deterioration of their financial situation. In addition, individual advice was provided with a view to boost financial planning skills and foster responsible behaviour in dealing with financial affairs.

Helping Hands

Erste Bank Oesterreich started the "s Österreich Initiative" as part of the "Helping Hands" campaign. Unemployed persons were given bank accounts free of charge for the period of one year. Together with Caritas Österreich, a training scheme was offered to enable persons affected by the economic crisis to take part in training and to improve their chances on the labour market. These measures were supplemented by events on the subject of "Well equipped through the economic crisis". The aim was to improve the personal financial situation.

Banca Comercială Română (BCR) focused on the proactive management of selected financially stressed borrowers, mainly by renegotiating loan terms. Furthermore, BCR introduced the optional payment protection insurance (PPI), representing an income insurance product attached to unsecured consumer loans, covering risks of unemployment, total and permanent disability and temporary incapacity to work.

Česká spořitelna helped their clients who were made redundant and are not able to meet their payments with personal consultancy and a free educational seminar given by the Manpower Staff Agency to increase their chances of finding a new job and maintaining their standard of living.

Erste Bank Hungary has implemented the Money Guide Programme to assist clients who face difficulties in repaying loans as a result of the crisis. The main elements of the programme were insurance cover for loan repayments in case of unemployment, extension of loan terms, reduced fees for early repayments and individual consultancy in financial affairs.

Further measures to improve the customer experience

Erste Bank Oesterreich started the new customer satisfaction study "Quality Check" at the beginning of 2009. Customers of the bank and the savings banks are regularly asked about their satisfaction in the relevant areas. The Quality Check study will enhance the understanding of customer needs and thus improve customer relationships. This measurement instrument permits internal and external benchmarking; and hence clearly exposes strengths and weaknesses.

Since March 2009, Erste Bank Oesterreich has also improved its offer to customers with a migration background. At 17 branches

services are offered to customers from the countries of former Yugoslavia and at ten branches to customers from Turkey in their native languages. In this manner, Erste Bank Oesterreich covers the two largest groups of immigrants that jointly account for almost 50% of all immigrants in Vienna and makes a substantial contribution to supporting the integration process. This should lead to better services for existing customers and create opportunities to acquire new customers.

BCR improved customer service by centralising its customer complaints procedure. The quality of this service is closely monitored and aims at increasing customer satisfaction and improving communication. A project on the effectiveness of the retail sales force implemented a modern and standardised approach to maintaining client relationships. Among the main benefits of the project are higher sales, improved branch staff productivity and the implementation of service models for each client segment.

In 2009, BCR continued to administer foreign financing programmes that offer access to funding. These programmes aim to increase companies' competitiveness and reduce the disparities between Romania's economic regions, but also enhance customer relationships and support social stability by contributing to the creation of new jobs. Moreover, in 2009 BCR launched marketing campaigns to promote BCR EU Office services, mainly services under EU-financed projects for agriculture, competitiveness, fishing, tourism and infrastructure.

Erste Bank Hungary improved its customer service by substantially enhancing accessibility to its retail branches. As a result of the programme that started three years ago, the bank has thus far converted 108 of its 204 branches into disability-friendly premises by ensuring full access to the entrances and creating larger spaces inside the branches for easier manoeuvring. An additional 15 to 20 branches will be remodelled in 2010 and newly opened units will be architecturally designed to provide full wheelchair access.

In addition, Erste Bank Hungary has started teaching banking advisors sign language for the deaf-mute in collaboration with the National Association for the Deaf and Hearing Impaired. In a first stage, volunteering banking advisors in 11 branches will take the exam in sign language. In the long term, the bank aims to have deaf-mute-friendly branches in each county seat.

In 2009, Slovenská sporiteľňa focused on ensuring a smooth transition to the euro. Fittingly, the first euro transactions in Slovakia were run through Slovenská sporiteľňa's ATMs. Many clients expressed their satisfaction with the professional organisation and support of the euro introduction process.

Erste Bank Serbia focused its attention on advising clients on the accession process to the European Union and providing better services to the key client segment of pensioners. Specific measures included lower monthly account maintenance fees, delivery of free-of-charge account statements with pension cheques to the home address, pension withdrawals at ATMs one day earlier than at other banks, training in ATM use and life insurance policies instead of guarantors as loan security. In addition, Erste Bank Serbia identified the non-governmental sector as a source of potential customers, which led to the creation of a range of products specifically designed for such organisations and their employees.

Small and medium-sized companies (SME)

Numerous negative reports on the general state of the economy and scarce availability of bank financing created a sense of insecurity in the business sector. In response to this, Erste Bank Oesterreich and the Austrian savings banks started the *s Österreich Initiative* for SME customers at the beginning of 2009.

Under the theme "The Best Bank Takes the Initiative" (*Die beste Bank zeigt jetzt Initiative*) a loan volume of EUR 6 billion was pledged for the domestic economy over the next three years. EUR 3 billion are reserved specifically for corporate customers.

Neither were start-ups neglected in this difficult economic situation. The "GO! GründerCenter" provided consulting in 2009 for financing and financial aid schemes for persons making the switch to self-employment. The programme also included consulting and continuing education courses.

BCR strategically supports the SME sector by providing a wide range of financing solutions in order to help its clients to raise their domestic and international competitiveness. BCR's offer is based on various structural programmes amounting to about EUR 4.8 billion,

as well as several national programs totalling EUR 265m. In addition, BCR supported companies to regain financial stability by extending working capital and investment loans at attractive terms.

Erste Bank Serbia participated in the official celebration of the First European SME Week and organised an SME Info Day in cooperation with the European Commission Delegation, the Ministry of Economy and Regional Development and the Ministry of Science and Technological Development. At this event, the Bank clients had an opportunity to obtain information about available EU funds as well as to establish contacts with other enterprises interested in getting involved in these activities.

Ethical investing

In 2009, the Austrian asset management company of Erste Group, ERSTE-SPARINVEST KAG, continued to focus on the theme of sustainable investments. The focus of activities was on sustainable thematic funds and sustainable investments in Central and Eastern Europe.

In 2009, a team of five sustainability specialists managed eight investment funds with a focus on sustainability. These include two bond funds, four regional stock funds and two theme funds for climate protection and environment. The latter two funds are managed in cooperation with WWF Austria. Apart from active fund management, the sustainability team of ERSTE-SPARINVEST also manages portfolios that are invested according to sustainability criteria.

The flagship product of the Group is the ESPA VINIS STOCK GLOBAL; in 2009 it was named the best global sustainability fund in Austria and Germany by the German consultant Feri. Furthermore, in 2009 the cornerstone was laid for the first globally-invested micro financing funds open to private investors.

In 2009, ERSTE-SPARINVEST was the first major Austrian investment fund company to adopt the Principles of Responsible Investment (PRI). This move once again highlights the commitment of the company to sustainable investment. Despite the turbulent times on the financial markets, ethical investments widened to EUR 1.2 billion, which corresponds to a share in total investment volume of 4.6%.

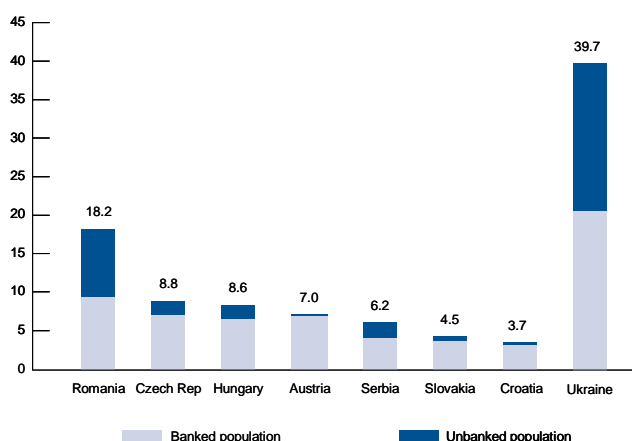
Financial inclusion

In 2008, Erste Group and its largest shareholder, ERSTE Foundation, launched an initiative to explore innovative ways in which the “unbanked” population in Central and Eastern Europe could be approached. As over 35 million people have no bank account in Erste Group’s markets, providing access to financial services can play an important role in supporting economic development.

This “banking the unbanked” initiative led to the establishment of good.bee Holding (“good.bee”). It began operations in January 2009 with a mission to increase the accessibility to financial services of those population segments that – for economic, social or other

reasons – are not adequately covered by commercial banks. By extending the reach of responsible financial services to economically or socially disadvantaged people, good.bee aims to support their development and social integration. The focus of good.bee’s activities is in Central and Eastern Europe, in particular, those countries where Erste Group is active.

Access to financial services (2008, in million) Banked and unbanked adult population (15+ years)



Source: Erste Group, Statistical Office of Serbia, State Statistics Committee of Ukraine. Share of unbanked population in Ukraine is extrapolated from Romanian data.

good.bee develops its financial inclusion activities in two main directions: On the one hand, it focuses on microfinance, i.e., extending the reach of financial services to support the development of population groups that presently have no access or only limited access to banking; On the other, on social entrepreneurship, i.e., developing market-based business models and financing solutions for the social sector.

Current good.bee Initiatives

In line with its strategy, good.bee’s first ventures focus on providing financial services to people with no access or only limited access to banks as well as to social entrepreneurs. The first microfinance operations have been started in Romania – a country with over 8 million unbanked people and where Erste Group is the market leader in banking through its local subsidiary, Banca Comercială Română. At the end of 2009, the following good.bee ventures were in operation.

Good.bee Credit

This venture was launched in October 2009 in partnership with the Center for Economic Development Foundation, a successful local micro-finance organisation. good.bee Credit provides micro-loans in the rural regions of Romania, in particular, to small farmers and other agricultural micro-businesses and basic financial training and education. By year-end 2009 good.bee Credit had a total credit portfolio of some EUR 1 million.

good.bee Service RO

good.bee Service RO is the first company in Central and Eastern Europe to offer its clients the possibility to obtain a basic bank account without ever visiting a bank. Using mobile phone technology, the company provides an affordable current account and debit card (both issued by BCR), distributed through an independent sales network. The company was established in partnership with the WIZZIT Group of South Africa, a global pioneer in mobile banking. Launched in April 2009, the company had close to 15,000 clients as of December 31, 2009.

good.bee Changemakers

This is the first initiative in the region to combine a broad range of financing alternatives with a strong support network for social entrepreneurs, offering financial and developmental support through three streams:

- **good.bee Social Ventures Fund - A dedicated investment fund, offering social entrepreneurs debt or equity financing to develop their ventures.**
- **The Social Entrepreneurs Support Network - It builds the professional capacities and operating capabilities of social entrepreneurs that have obtained financing under the initiative.**
- **Ashoka Fellowships in partnership with ERSTE Foundation - A living grant for three years, allowing social entrepreneurs to focus full-time on building their institutions and spreading their ideas. The good.bee Changemakers Initiative is developed in partnership with Ashoka, the global association of leading social entrepreneurs, and is fully supported by the Erste Group and ERSTE Foundation. First investments are expected in early 2010.**

In 2010 good.bee intends to continue with the development of the above operations. It will also explore possibilities to provide micro-finance services in other Erste Group markets.

CIVIL SOCIETY

Erste Group looks back at a long tradition in the area of cultural and social involvement and is committed to sharing its success with the wider community.

“Kontakt” is Erste Group’s programme for the arts and civil society and serves as the Group’s framework for all of social and cultural initiatives and activities.

Arts and culture

For the sixth time, Erste Group has acted as a partner for the Vienne, Austria’s largest film festival.

Together with the publisher, Klett-Cotta, the bank sponsored the Jean Améry prize, one of the most renowned literature prizes in the German-speaking world. With the extension of the Jean Améry prize to the region of Central and Eastern Europe, Erste Group has once

again shown its commitment to the cultural integration of the region.

In 2009, “Kontakt” supported the project “Unabhängige Literaturhaus Niederösterreich” (ULNÖ) (Independent House of Literature in Lower Austria) for the fifth year in a row within the scope of “Atelier Top 22”. The project gives authors from Central and Eastern Europe an opportunity to spend two months in Austria. It makes it possible for writers to present their texts to a German-speaking audience.

Every year since 1989, the Erste Bank composition commission has been awarded to a young Austrian composer. At the “Wien Modern” festival, the premiere of the resulting work is performed by Klangforum Wien (a leading ensemble for contemporary music whose main sponsor since 2007 has been Erste Bank Oesterreich) and the piece is also added to two other concert programmes of this outstanding ensemble. In 2009, Erste Group 2009 was awarded the art sponsoring prize “Maecenas” for its long years of support for the composition prize.

Erste Group and Secession have been working as partners for many years. Employees of Erste Group benefit from this partnership through special art programmes.

Within the scope of “Kontakt”, Erste Group has been supporting the VIENNAFAIR - International Contemporary Art Fair with a focus CEE since 2005: Erste Group provides support for the participation of East European art galleries in the art fair. The group of galleries that received support increased to 29 exhibitors in 2009. The galleries came from Moscow, Budapest, Bratislava, Prague, Warsaw, Bucharest, Vilnius, Ljubljana and Belgrade.

The platform Tranzit was founded in 2002 and is dedicated to the promotion of contemporary art and theory in the regions of Central and Eastern Europe and has a focus on the Czech Republic, Slovakia, Hungary and Austria. Tranzit offers artists, curators and academics in these countries the opportunity to develop artistic and socially-relevant strategies.

The art collection of Erste Group focuses on the production in Central, Eastern and Southern Europe taking into account the current discourse on art and critical theory. It reflects on the political and historical transformation in Europe and the value attached to art before the background of specific cultural, social and economical developments in the ex-communist countries. The objective is to develop a concept-based collection with a well-founded art history background that addresses local themes and contexts with positions often disregarded within international art production and ignored by many museums up to now. As in previous years, works from the art collection of Erste Group were shown at many exhibitions in 2009.

Activities by Erste Group's subsidiaries

In addition to group wide activities within Kontakt and Tranzit, in 2009 Erste Bank Hungary became a strategic sponsor to Művészeti Palotája (Palace of Arts), a cultural centre acclaimed in

Hungary and internationally and remained one of the main sponsors of Magyar Filmszemle (Hungarian Movie Week). In addition to cultural events with national significance, the bank continued to support regional and community events (performances in rural theatres, village days, local festivals and concerts).

In 2009, Erste Bank Serbia continued its long tradition of providing support to the further development of the culture and art scene of Serbia. Traditional cultural events were supported, such as the Sterija Theatre Festival, a competitive festival of national drama and theatre; the Zmaj Children Games, the largest children's event in Serbia; the Belgrade Summer Festival, the Belgrade JAZZ Festival: Young Serbian Designers 2009 - MIXER EXPO 2009 - an exhibition by young talented industrial designers from Serbia who presented objects made of eco-friendly materials; and, the Trg ni se! Belgrade Poetry Festival.

Erste Bank Serbia is particularly proud of Centrifuge, its donation programme, aimed at cultural decentralisation, by which it helped the initiation of eight new cultural events in eight local communities during 2009. The goal of the Centrifuge programme, which was launched together with the Balkan Local Initiatives Fund, is to encourage activism of young people of 15 to 30 years of age in the field of culture at locations in Serbia where the bank operates, outside of Novi Sad, Belgrade and Niš.

Over the past year, Slovenská sporiteľňa predominantly supported cultural activities in regions, in which it has a long-term cooperation with regional theatres. These are Nitra, Prešov, Martin, Košice and Žilina. It was also a general partner of the largest jazz festival in Central Europe – Bratislavské jazzové dni Slovenskej sporiteľne, for the seventh year running.

In its second year, the educational project Jazz Goes to Schools was nominated for the Via Bona award for corporate philanthropy and courage to support a project carried out in a non-traditional way. The objective of this project was to interactively introduce the rhythms that laid the foundation of modern pop music to secondary school students. Concerts gave basic information, presented various styles, jazz development and electronic music effects. This project toured six Slovak cities and was very well received by the public.

Social activities and sports

Erste Group and Caritas are not only long-term partners, but also bound together by the common objective of assuming responsibility for a stable and peaceful development of society in Central and Eastern Europe. Therefore, Erste Group has been supporting its partner Caritas since 1999 in its work for children in the poorest countries of Europe. Within the framework of the Caritas campaign 2009, Erste Group supported the communal residence St. Damian in Spiske Vlachy in Slovakia. Young adults from state-run orphanages and children's homes are helped to start an independent life.

An important aspect of the joint commitment of Caritas and Erste Group is the fight against poverty in Austria. In 2009, Erste Group

also supported the Caritas autumn campaign for people in need under the theme "Your help can create miracles". Another Caritas project, "Young Caritas" with the aim of motivating young people to act in a socially responsible way is also supported by Erste Group. Young Caritas sees its role to act as an intermediary between Caritas and young people that want to address themes such as homelessness, the elderly and immigrants.

Activities by Erste Group's subsidiaries

Österreichische Hilfswerk, one of the large Austrian service providers in the healthcare and nursing sector has been a major cooperation partner of Erste Bank Oesterreich since 2003. The partnership concentrates on the topic of care.

Sponsoring activities of Erste Bank Oesterreich in the cultural, social and economic context are supplemented by specific commitments in the area of sports. When selecting sponsorships, Erste Bank Oesterreich focuses on the promotion of young athletes, regional sports and added value for customers.

For more than 30 years, Erste Bank Oesterreich jointly with the savings banks has been supporting the school soccer and volleyball leagues. This commitment is the longest existing sponsorship for the promotion of young athletes in Austrian sports and boasts the participation of over 1,000 students making it the largest youth competition in Austria.

The biggest running initiative of Austria, Erste Bank Sparkasse Running, covered over 200 running events throughout the country in 2009. Erste Bank Oesterreich makes an important contribution to preventive healthcare. Apart from the healthcare issue, the preventive aspect fits in very well with the idea of financial provisioning.

In 2009, Erste Bank Oesterreich once again supported the Vienna City Marathon, the largest running event in Austria with over 27,000 runners. It was also the sponsor and patron for the third time of the Erste Bank Vienna Night Run, a charity run in favour of "Licht für die Welt". Erste Bank Oesterreich sponsors the event, kidsrun4kids, at which over 18,000 elementary school pupils take part in ten runs.

BCR is one of the most important contributors to community welfare, with the dedicated budget being one of the biggest in Romania. In addition to a significant number of sponsorships in various fields such as art, culture and health, BCR developed a new community involvement strategy. Thus, BCR currently focuses on three main directions: financial education, entrepreneurship development and business alignment to community needs.

"BCR Hopes" is a project aiming to support the musical education of talented youngsters, initiated by BCR and Good.Bee holding, in partnership with Radio Romania, and other organisations. 17 children were selected for their remarkable musical talent and will be sponsored in the first stage of this programme.

Within "The second chance" programme, aiming at reintegrating children into schools and society, over 1,500 children benefited from social, medical and psychological assistance, material support and instructive and socializing activities in 15 centres of the "Save the children Romania" organization. The project has nationwide coverage and represents another opportunity for BCR employees to enrol as volunteers.

In 2009, BCR became a partner of the "Food Bank" project, initiated by the Romanian Red Cross. "The Food Bank" aims to collect and distribute non-perishable food items, obtained through donations and sponsorships, to people in distress (pensioners, people with disabilities, single parent families, etc.) as an immediate solution for improving their situation.

The social sponsoring activity of Erste Bank Hungary is primarily focused on helping youths, supporting the disadvantaged of society in improving their living standards, retaining a healthy lifestyle, and on preventing diseases. In addition to financial donations, the bank often gives donations in kind, i.e. through corporate volunteering efforts of its employees. Organisations supported this way are, for example, the SOS children's village, the Hungarian Red Cross, the Foundation for Healthy Communities and the International Children's Safety Service. In addition, the bank sponsors international and national sport events, and several highly popular teams, such as the men's handball team of Békés.

Erste Bank Serbia pays special attention and allocates funds to initiatives and projects that contain an inclusion element and improve the quality of life of marginalised social groups. In 2009, the bank supported the inclusion of disabled persons through their employment by supporting the My Little Table project created by Dragana Ognjenović as well as work centres of the Milan Petrović School, Novi Sad. Together with PerArt, the Bank also worked on social inclusion of disabled persons through art.

Education

Slovenská sporiteľňa regularly supports educational projects at 13 Slovak universities. While the bank focused mainly on projects associated with the euro conversion in 2008, this year, the projects concentrated on education within the European context. Projects were associated mostly with the 20th anniversary of the Velvet Revolution in the former Czechoslovakia, in which students played a key role.

The project "I Think Economically" by Slovenská sporiteľňa and the prestigious weekly magazine TREND targeted the education of secondary school teachers, while the Nadácia (foundation) of Slovenská sporiteľňa carried out the project "School through Practice" – an educational grant programme for secondary school students.

Česká spořitelna (ČS) continued collaboration with the Prague School of Economics (VSE) which the bank supports as a general sponsor. The course which started in the winter semester of the academic year 2009/2010 is taught both by VSE lecturers and ČS

managers. Students may compile semester and diploma theses, participate in projects or professional internships at the bank and in this way combine theoretical and practical knowledge in a real financial environment. There is also an open day for students and a special lecture on succeeding on the job market.

CS also supported education seminars for students from all types of higher education colleges aimed at developing soft skills - e.g. presentation techniques, communication skills, project management, etc. The tuition fees will be donated to support existing CSR projects, covering the elderly, drug prevention and sustainable development. The choice is made by those seminar attendees who participate in the course of the winter semester of the academic year 2009/2010.

In 2009, BCR launched its first nationwide financial education programme, "My personal finance" recognising that a sustainable development the society is based on a strong education system. Under the partnership with Junior Achievement Romania – one of the most famous junior education organisations worldwide – the programme "My Personal Finance", offers information to upper secondary school students on correct financial planning, elements of an adequate personal budget, savings and investment principles, investment types, advantages and disadvantages of loans, loan types and costs. During the 2008/09 school year, over 3,500 students from 35 cities learned about financial mechanisms and their functioning in "learning by doing" with the support of BCR volunteers.

"The Money School" is another project launched by BCR, aiming to become the most important Internet community for people who wish to learn about realising their aspirations responsibly. The purpose is to improve people's awareness regarding their own financial affairs, a key element for personal and social balance.

Erste Bank Hungary aims to be a pioneer in improving financial literacy. In the past, the bank sponsored a number of contests in financial education for students, while more recently it participated actively in making financial and economic information available. In this respect, the biggest chance manifests itself in youth education, since this is the demographic group that is extremely open-minded to new knowledge and to using online and mobile platforms.

In 2009, Erste Bank Serbia continued to support the development of education through standard grants to elementary and secondary schools as well as by supporting alternative educational programmes such as the 2nd World Biennial of Student Photography of the Art Academy, Novi Sad; the 3rd Science Festival, Belgrade; the Laboratory of Famous People, a selection of the best science communicator, which was organised by the British Council and Serbian Broadcasting Corporation; and, the "Adventure COOLture", a free multimedia CD with a presentation of Belgrade cultural events for children.

In 2009, Erste Bank Serbia started its cooperation with Junior Achievement, which is the world's largest organisation dedicated to

educating students about workforce readiness, entrepreneurship and financial literacy through hands-on programmes. The goal is to support the development of young people, but also to involve employees in working with young talents on their programme “Junior Achievement Banks in Action”.

Corporate volunteering

A key element of the concept of corporate social responsibility at Erste Group are the volunteering programmes, which provide employees with an opportunity to place their time, knowledge and energy at the disposal of those to whom it will mean much more than money.

The corporate volunteering programme of Erste Bank Serbia was initiated back in 2008. The programme is of a long-term character and involves the organisation of volunteering activities at different levels and in different communities. In addition to concrete actions implemented, the goal is also to raise awareness for the need of community involvement. During 2009, five volunteering activities were implemented in five local communities throughout Serbia, in which over 100 volunteers or over 10% of Erste Bank Serbia's employees took part.

In 2007, Česká spořitelna joined major international companies in allowing its employees to work for a charity during working hours while receiving regular pay. Corporate volunteering is another way of sharing one's success with wider society and help people in need. CS employees can volunteer to work two days per year for a charity or participate in socially beneficial activities. In 2009, almost 1,200 employees helped in more than 80 non-profit organisations across the Czech Republic.

In 2006 Erste Bank Oesterreich took part in the project “Vernetzte Welten” (networked worlds), and in 2009, selected NGOs offered bank employees the opportunity to take over responsibility for a limited time for innovative projects, with the staffing expenses not being billed by the bank.

STAFF

Work in the area of human resources in 2009 was strongly influenced by the financial and economic crisis. Despite the quite satisfactory result for 2008, the entire management board and 2nd management level staff voluntarily gave up their bonus payments; the bonus budget for all other employees was cut by 40%. Furthermore, the management board also voluntarily relinquished 10% to 25% of their guaranteed annual remuneration effective as of 1 July 2009 and the continuation of the Long Term Incentive Programme (LTIP).

The number of employees at Erste Group declined by only 4.1% despite the crisis that prevailed in the year 2009. This was due to a Group-wide programme to view redundancies for economic reasons as the last option (with the exception of the Ukraine) and to look for alternative ways of achieving lower personnel costs. In this context, there were more offers of part-time jobs, sliding scale pension and part-time retirement schemes, short sabbaticals, increased utilization of holidays credits, reduction of overtime, and in Austria, financial aid for employees in buying education periods for pension entitlements to retire earlier.

As regards personnel development, at the Group level all projects planned were continued or started on schedule, in part jointly with Erste School of Banking and Finance. These measures include the Group Leadership Development Programme as well as the Group Junior Trainee Programme, which was completed successfully in August 2009. This “Erste Group Junior Trainee Programme” currently runs with the second group of trainees, focusing on risk management, corporate banking, treasury, real estate and IT. These 21 trainees from all countries of Erste Group will also benefit from a new co-operation with University of Vienna (Universität Wien), which grants them a reduction in time and fees for further academic degree studies, if they successfully pass the trainee programme.

At the local level, attention was paid to avoiding as far as possible any restrictions on training programmes in order to signal continuity at all levels to employees. At the holding company itself, a programme for potential young managers was started.

With a view to positioning the bank as an attractive employer in the region, a Group-wide recruiting initiative was launched with the objective of standardising and harmonising recruiting. As of the beginning of 2010, a Group-wide “internal labour market” was started to support mobility within the Group.

In order to intensify contacts with potential employees, Erste Group together with five partners again took part in the Initiative “Students4Excellence”. The objective is to establish contacts with the top 5% of the students at Austrian universities early on, to given them an opportunity to get to know the company, and to facilitate their entry into the profession via internships and a mentoring programme.

Based on the findings of the Group-wide employee survey conducted in 2007, the relevant measures were put in place during the course of the past year. The next Group-wide survey is scheduled for 2011 and after that every four years. In between, local surveys will be scheduled to obtain feedback on more specific questions.

The preparatory work for a Group-wide career model as regards expert knowledge and management qualities was also continued. The focus was placed on behaviour – as it is not only a matter of what one does, but also about how one behaves vis-à-vis superiors, subordinate employees, colleagues and customers. To this end, a 360° feedback was also conducted for all management level staff at

the holding company and for a large part of the management staff of Erste Group (total of around 1,600 persons).

In close co-operation with the respective business lines, Erste School of Banking and Finance started the first Group-wide standardised education programmes in so-called "Business Colleges". Within the Risk Management (RM) College, the first group of 19 experienced risk managers from throughout Erste Group is now on an 18-month track in the Advanced RM Programme. The purpose is to ensure a homogeneous understanding of standards and processes within Erste Group, and to produce a pool of one hundred experienced risk managers in the coming years. The programme includes an intensive portion of distance learning and ends with an exam. Similar activities have also started in other business lines.

"Learn. Reflect. Exchange. Network" is the motto of a lecture series that the Erste School of Banking and Finance offers to all interested employees. In the months of July and August 2009, 18 "Group Summer Lectures" in co-operation with various business lines were organised. More than 700 attendees discussed topics from the areas of treasury, risk management, strategy and investment banking. Furthermore, Group Lectures were organised in all countries of Erste Group throughout the year. The lecturers are experienced colleagues of Erste Group as well as renowned external speakers.

Activities by Erste Group's subsidiaries

The aim of Erste Bank Oesterreich is to give employees attractive prospects and development options for their individual career paths (expert and management careers) by establishing a new career model. Within the scope of the career model, the qualification possibilities and development conditions are set out stage by stage. There is a concrete management profile for every function of the company that describes the expert, personal and social requirements for each career stage. On this basis, a standardised training and further education offer is prepared that matches the personal and social requirements. The transparency created by the career model is designed to make the professional advancement of employees easier. In 2009, the career model was implemented across Erste Bank Oesterreich's entire business. The implementation at Erste Holding as well as at selected savings banks is planned for the year 2010.

In 2009, Erste Bank Oesterreich started its inaugural childcare pilot project named "Flying Nannies". Under this programme, "nannies" look after the children of employees on school holidays on which their parents do not have off at the bank's premises.

Furthermore, Erste Bank Oesterreich was named one of the three best companies for apprenticeships by the Republic of Austria. The bank offers a total of 90 apprentices the opportunity to complete a three-year dual apprenticeship course to become bank and/or office clerks. The apprenticeship training provides education with highly specialised knowledge and is also practice-oriented, with the individual personality development of each employee being devoted the highest priority.

Erste Bank Oesterreich was also recognised for its offer to students through the "Place to perform"-study. The study evaluated companies that invest today into the employees of tomorrow and not only give students their first chance to gain practical experience, but also the best possible work and learning environment. In 2009, Erste Bank took part in a study and achieved fifth place, which puts the group in the Top 5 of the most attractive employers offering internships in Austria.

Key staff indicators – (Austria, ex savings banks)

	2009	2008	2007
Employee turnover	4.4%	5.1%	5.5%
Sick days per year	7.6	6.8	7.0
Training days per year	2.9	3.2	3.2
Women in management positions	25.4%	24.4%	22.9%
Share of part-time staff	23.6%	21.6%	22.5%
Share of female part-time staff	83.4%	84.9%	85.5%

The health of the employees for Erste Bank Oesterreich remained a key concern in 2009. In 2009, a preventive health check up was offered to all employees (participation rate: over 60% of all employees). For the first time, blood tests were also made to identify oxidative stress. An extensive lifestyle consultation by occupational physicians was conducted with a focus on the early recognition of risk factors for cardio-vascular diseases. The preventive physical check-ups were done at the workplace.

Furthermore, in 2009 a focal topic was "healthy veins". As employees are mostly engaged in sedentary work, preventive medical care for vein diseases is also a topic specific to work activity and occupational health; over 700 employees took part.

Intensive training for management level staff and employees on the topic of "stress management" and "burnout prevention" was also offered as well as courses on relaxation techniques. These courses take place during working hours and serve, on the one hand, to balance movement, and on the other, to help employees to learn strategies to help them regain their balance relatively quickly in critical phases.

All of the health-related indicators are collected and evaluated by the health centre, also with respect to demographic patterns. The data collected indicates that the number of chronic diseases (esp. of the spine and psychological) clearly decreased during the period 2006 to 2009 among employees of Erste Bank Oesterreich as compared to the total population of Austria. In 2009, the healthcare centre reported around 10,000 consultations. In 2009, Erste Bank Oesterreich was awarded the quality certificate by the Minister of Health "Gütesiegel Betriebliche Gesundheitsförderung" (quality seal for the promotion of occupational health) for a three year period. This special distinction is awarded to one to three companies

every year that serve as models for the promotion of health in everyday work routines.

At BCR, talent and career management processes continued to be implemented gradually. In 2009, a manager talent pool was created. To take part, an employee has to be nominated on strict criteria, two of which are high past performance and high future potential. By being identified as talents, employees enjoy intensified targeted development and career support including seminar training, networking and idea-sharing opportunities with senior managers, other talented employees, external guest-speakers and international colleagues, and are also promoted as good internal candidates.

Based on a thorough selection process, some of the managers were selected in the local manager talent pool, five were accepted for Group Leadership Development Programme and three for Connect (Group Development Programme for Senior Professionals & Potential Managers). As a first development measure, five managers from the local pool will benefit from an 18-month MBA programme conducted by Vienna University.

Furthermore, the first BCR Employee Opinion Survey was conducted during September 2009 by an external consultancy company. The main objective was the identification of specific needs of BCR employees and to obtain a full picture of the views and attitudes of the bank's employees.

In order to support employee development, a new employee recognition scheme - BCR Star Awards - was implemented in 2009. This programme gives formal recognition to any BCR employee who has been with the bank for at least six months and has made a meaningful contribution to the results of his/her organisational unit or to the business in general.

In order to promote and sustain a performance-driven culture within BCR, a performance management application was implemented in 2009. All employees have access to the application, which supports the annual assessment process and helps to achieve enhanced transparency of the performance management system and employee motivation schemes.

The Training Department designed and conducted the training strategy for 2009, aligned with the business lines' objectives and with Erste Group's training model. The average training days-per-employee ratio at bank level exceeds 3.5.

The outplacement programme, which was officially launched in 2008, continued in partnership with an external HR specialist that provides nationwide coverage. The main objective is the external relocation of the employees affected by collective dismissal through customised professional counselling and support in designing a personal development plan. As of end-2009, about 75% of the employees needing career assistance joined the programme. Over 3,000 one-on-one and collective meetings and counselling sessions took place, aiming to identify the best job alternatives based on the

personal, educational and professional background of each person, and to best prepare the candidates for interviews.

In 2009, Erste Bank Serbia continued its organisational culture change project, which established corporate values, a mission and a vision for the bank. Activities were grouped into seven sub-projects aimed at triggering the necessary changes, but also incorporating the key messages in everything the bank does. In order to promote active and healthy living as well as stress reduction, Erste Bank Serbia launched a pilot programme named "Giving up Smoking through the Allen Carr Programme". The human resources as well as the communication departments were early adopters. Fostering solidarity among employees was also high on the agenda in 2009. To this effect, the Marina Čurčić Fund was created by the bank and the trade union. This fund supports employees in the event of illness, death of an employee or a member of his/her immediate family or a dire financial situation. The fund also grants loans to employees for the education of their children and grants scholarships to children of single-parent employees. During 2009, the fund supported 112 employees with around EUR 23 thousand.

ENVIRONMENT

Erste Bank Oesterreich and Erste Group Bank (Holding) dealt intensely with the topic of environmental data management in the financial year 2009. For the first time, full carbon footprint analyses were carried out in accordance with the standards defined by IPCC and environmental data of material relevance was collected and evaluated for the two organisations and their functional subsidiaries. This significantly enlarged and refined the scope of data collection in comparison to the annual report 2008, which resulted in some massive changes to the data collected up until 2007. The data series below shows their development over the years 2007, 2008 and 2009; the environmental impact of the operations of the Erste Bank Oesterreich branch offices was also taken into consideration. The environmental data 2009 covers around 5,000 employees and net office space of approximately 180,000 m².

The environmental data reveal a positive trend: In the area of heating energy, an improvement was achieved despite the relatively cold period in 2009 as compared to the years 2007 and 2008 by optimising the heating installations and control systems. A positive change was also attained in the area of electricity consumption by measures to raise awareness and include employees in processes, by the optimisation of lighting and the targeted use of cooling and air conditioning technology.

Key environmental indicators*

	2009	2008	2007
Flight distance (km per employee)	2,174.0	2,803.0	3,179.0
CO2 emissions (tonnes per employee)	1.9	2.2	1.9
Water consumption (m3 per employee)	6.0	*	*
Reprographic paper consumption (kg per employee)	36.4	42.6	*
Recycling rate (%)	70.5	*	*
Electricity consumption (kWh per employee)	4,315.0	5,133.0	4,811.0
Heat energy consumption (kWh per m2)	79.7	87.9	82.7
Waste (kg per employee)	206.0	*	*

* Due to the reorganisation of data collection, no figures of comparison are available for 2007 and 2008. The data on water consumption is based on 1,304 employees (the complete data collection for the calendar year 2009 had not been completed at the time of this writing).

The reduction in the number of flight kilometres was achieved by a more conscious use of air travel during the economic crisis in 2009. Erste Bank Oesterreich and Erste Group Bank (Holding) aim to continue this extremely positive trend (-22.4%), but based on a much deeper environmental commitment in the year 2010.

The specific carbon footprint diminished in 2009 to below two tonnes CO2 per employee. The drivers of these positive changes can be identified in the aspects already mentioned and in the following additional measures:

- **Switching of two further vehicles used by technicians to natural gas-fuelled vehicles;**
- **Switching of 36 vehicles of the fleet to the more efficient Blue Motion technology.**
- **Creation of additional bicycle parking stands at two central locations to encourage climate-friendly mobility of employees;**
- **Saving electricity by modifying PC technology to “Wake on LAN” makes it possible to execute updates without turning on the PC.**
- **Information to employees disseminated via the intranet and articles in the newsletter of the savings bank on environmental protection and energy saving measures;**
- **Technical changes to the lighting systems to permit the switching off of lights not needed, and**
- **Continued participation in the ecoprofit project as an “ÖkoBusiness” company**

Furthermore, Erste Bank Oesterreich and die Erste Group Bank are participants of the Carbon Disclosure Project (CDP).

In 2009 BCR’s environmental activities centred on the more efficient use of electricity, fuels and water – to this effect the bank launched the ECO BCR project – and better awareness of environmental issues. The latter was achieved by attending the ESRA (Environmental & Social Risk Analysis) course organised by UNEP Finance Initiative, a global partnership between the United Nations Environment Programme and the financial sector, in order to improve its expertise in this particular field.

Česká spořitelna aims to align longer-term business decision-making as well as day-to-day activities with sustainable development standards. One example for this intention is the “Green Light to Energy Savings Programme” of the State Environmental Fund (SEF) for which the bank has been handling the application process and the disbursement of subsidies to the successful applicants’ accounts since June 2009. Česká spořitelna ensured the best possible access to the programme within the shortest time possible, and is the first bank to have started accepting applications for subsidies from the “Green Light to Energy Savings Programme”.

In the area of environmental protection, Nadácia Slovenskej sporitelne, the foundation of Slovenská sporiteľňa, launched the “Green Schoolyards” grant focused on the environment of school courtyards in elementary and secondary schools. The pilot project was a major success and Nadácia Slovenskej sporitelne evaluated some 80 submitted projects. Nadácia cooperates with the non-profit environmental association Jablonka on this project.

Erste Bank Hungary is committed to improving energy efficiency at its new headquarters and branch offices. Concrete activities include motion sensor lighting, the operation and optimum positioning of the elevators, heating and air conditioning system energy saving mode during the night and on weekends, and room temperature adjustment to external temperature. In order to reduce paper consumption, Erste Bank Hungary has implemented the option ‘cash withdrawal without statement’ in its ATM network. For employees riding bicycles to and from work, the bank installed two storage rooms and locker rooms with washroom facilities. In doing so, the bank promotes healthy and environmentally-friendly transportation.

Concrete measures and activities by which Erste Bank Serbia contributes to environmental protection include the following: recycling of IT equipment, toner cartridges and office paper, replacement of regular light bulbs with energy-saving bulbs, mandatory check if the lights, air-conditioners and other devices are turned off after the end of working hours, as well as strict control of electricity, water and heating consumption. Through these activities, the bank successfully informs and motivates its employees to personally contribute to the preservation of the environment. This was demonstrated by the fact that environmental protection scored highest in the 2009 survey on volunteering activities of employees.

First hand information



for shareholders.

Erste Group Share

Along with the general recovery of international stock markets, the shares of Erste Group gained 60.9% last year after having suffered a dramatic decline during the financial crisis of 2008. Despite the difficult market environment, Erste Group, one of the leading banks in Central and Eastern Europe with a customer base of more than 17 million, continued to operate successfully in 2009.

DEVELOPMENT OF STOCK INDICES

Recovery of stock markets after financial crisis

Following the dramatic declines in share prices as a result of the financial crisis, which started in the third quarter of 2007, and the subsequent global economic downturn, international stock markets have been posting gains again since March 2009. Last year was the best year since 2003 for the major stock markets. The Dow Jones Industrial Index rose by 18.8% in the year ended after losing 33.8% in the previous year, whereas the Dow Jones EuroStoxx 50 Index increased by 21.0% in 2009 after its 44.3% decline in the year before. The Nikkei 225 of the Tokyo Stock Exchange also racked up gains of 19.0% after its 42.1% drop in the previous year.

All key stock exchange indices achieved double-digit growth rates, but in so doing recouped only part of the considerable losses sustained in the preceding year. Looking at the decade just ended, however, indices such as the Dow Jones EuroStoxx 50 and several leading European indices (FTSE, CAC-40 or Dax) posted a negative performance.

Government and central bank measures prove effective

Governments and central banks took a number of policy measures in order to stabilise the economy, on the one hand, and the banking system on the other. While the former provided billions in fiscal stimulus and support packages for banks covering public guarantees and nationalisations, the latter proactively managed money supply in order to maintain liquidity in the banking system. Monetary policy measures included reductions in key interest rates to historic lows and the purchase of mortgage-backed securities and government bonds. Overall, this concerted action underpinned the turnaround in international markets. The first positive signals came with a surprisingly favourable reporting season worldwide and signs that the impact of an active economic policy was coming to bear, indicating an end to the recession. Although these indicators were not

yet sustainable, inexpensive share valuations following the steep declines and the lack in investment alternatives helped attract investors back to the stock markets and thus contributed to the rise in prices. The relatively quick partial repayment of state aid by the US banks also buoyed the markets.

Following the sharp decline over the previous year and the first two months of 2009, bank shares, too, rose markedly as of March. The sustained expansive monetary policy pursued by the central banks and the announcement by several banks that they were planning to take advantage of the recovery in share prices by raising capital in order to repay the state aid they had received, gave additional impetus after the second quarter of 2009. Subsequently, share prices profited from the quarterly results of several banks in the US and Europe which were substantially above expectations. After a 63.7% decline in the year before, the Dow Jones Euro Stoxx Bank Index, which comprises the most important European bank shares, experienced an increase of 48.9% to 219.96 points.

By rising 42.5% ATX outperforms international indices

After a volatile development, the Vienna Stock Exchange reported a 42.5% rise in the ATX to 2,495.56 points in 2009, recovering half of the losses it had suffered since the financial crisis had broken out over two years earlier. Based on the annual low of 1,411.95 points on 9 March, the increase actually amounted to 76.8%. Last year, which has been the worst year since the ATX was launched 19 years ago, saw the index fall 61.2%. The ATX reached an annual high of 2,752.39 points on 20 October. The Vienna stock market performed better than major markets in 2009, since it had sustained comparatively higher losses in the year before. This was due mainly to massive sales by international investors following negative reports by rating agencies and the media on Eastern Europe and their impact on Austrian companies given their high commitment to this region. Following the resurgence in share prices, the market capitalisation of the Vienna Stock Exchange reached more than EUR 77 billion after EUR 53.1 billion at the beginning of 2009. By way of comparison, market capitalisation had been at EUR 156.6 billion at the beginning of 2008. Although positive sentiment has returned since March, average monthly trading turnover declined by 50% to some EUR 6 billion in 2009.

DEVELOPMENT OF THE ERSTE GROUP SHARE

Erste Group share outperforms European bank index and ATX – up 60.9%

Under the impact of the financial crisis and the extremely negative sentiment towards Central and Eastern Europe, the Erste Group share reached a historic low of EUR 7.00 on 17 February 2009. Thanks to the stock market recovery, a confirmation of the Erste Group rating by Standard & Poors and Moodys and the inclusion of the Erste Group share in the DJ EuroStoxx Select Dividend 30 Index, the share jumped by the end of the first quarter. The successful public offering of participation capital at the end of April 2009 – EUR 540 million were placed with private and institutional investors, another EUR 1,210 million with the Republic of Austria – and the participation of the Spanish company, Criteria Caixa Corp in Erste Group helped to sustain the rise in the Erste Group share price. In mid-November, a capital increase amounting to EUR 1.74 billion was completed thanks to strong investor interest, and this transaction increased the core capital ratio and improved capital quality. The entire volume of 60 million shares, each offered at a price of EUR 29 was placed with institutional and retail investors.

Analysts and investors alike viewed both the 2009 financial results and the capital increase positively. In the course of the year, analysts increased both their share price target and the financial forecasts. These adjustments reflected the robust results Erste Group achieved in difficult times by maintaining strong positions in its markets, the changing credit risk environment and NPL coverage, but also the improving capital position as a result of the capital increase. By the end of the year 2009, the share price was at EUR 26.06, thus increasing 60.9% after contracting 66.6% in the year before and outperformed both the Dow Jones Euro Stoxx Bank Index and the ATX. Compared to the annual low in mid-February, the Erste Group share price has nearly quadrupled.

Trading volume and market capitalisation

The number of Erste Group shares outstanding increased last year from 317,012,763 at year-end 2008 to 377,925,086 shares, boosted by the 912,323 shares issued under the employee participation scheme in May 2009 and the issuance of 60,000,000 new shares in November 2009. The price gains pushed the market capitalisation of Erste Group up to EUR 9.8 billion at year-end 2009, a strong in-

crease after the fall to EUR 5.1 billion in 2008. Trading volumes in Erste Group shares decreased last year in line with the general downtrend in average trading volumes on the Vienna Stock Exchange. The average daily trading volume in Erste Group shares on the Vienna Stock Exchange was 1,393,525 per day in 2009. The year before, trading volume was 1,612,962 shares. This translates into a decrease of average daily trading volumes by around 13%. Trading volumes on the Prague Stock Exchange (PSE), on which the shares of Erste Group have been listed since October 2002, rose versus the previous year by around 11%, hitting 451,543 shares per day. On the Bucharest Stock Exchange (BVB), the average daily trading volume in Erste Group shares, which have been listed there since 14 February 2008, was 9,291 shares per day versus the figure of 8,633 in the preceding year.

Performance of the Erste Group share*

	Erste Group Share	ATX	DJ Euro Stoxx Bank Index
Since IPO (Dec 1997)	135.1%	91.3%	–
Since SPO (Sept 2000)	121.8%	113.6%	-37.4%
Since SPO (July 2002)	49.6%	104.6%	-12.5%
Since SPO (Jan 2006)	-42.1%	-35.9%	-42.0%
2009	60.9%	42.5%	48.9%

*) IPO ... Initial Public Offering/Börseneinführung, SPO ... Secondary Public Offering/Kapitalerhöhung.

DIVIDEND POLICY

Since 2005, Erste Group's dividend policy has not been based on a fixed dividend payout ratio, but rather on the management board's intention to increase the dividend by a minimum of 10% compared to the year before provided that targets for the respective year were achieved. Given the stabilising market conditions in 2009, which led to a small increase in net profit, the management board decided to propose an unchanged dividend of EUR 0.65 to the Annual General Meeting. As the shares, which were issued in November 2009, are fully eligible for the dividend, the payout ratio is slightly above the historic level of about 20% to 25%. This enables Erste Group to retain a large part of its profit and strengthens the bank's capital base. In future, Erste Group aims to continue to pay a dividend, the amount of which will be determined by the bank's profitability, growth outlook and capital requirements.

INVESTOR RELATIONS

In 2009, Erste Group responded to the higher demand for information from analysts and investors – triggered by the adverse market environment – by continuing its open and transparent communication policy. Recognition of Erste Group's information policy came in the form of the award received for the best investor relations work in Austria in the "IR Magazine UK & Continental Europe Awards" survey, at which over 700 international analysts and portfolio managers judged the quality of corporate IR activities.

To strengthen the Group's core capital ratio and improve capital quality, Erste Group carried out two capital transactions in 2009. Firstly, Erste Group issued participation capital of EUR 1.76 billion, EUR 540 million of which was subscribed for by private investors; the remainder was purchased by the Republic of Austria at the same terms.

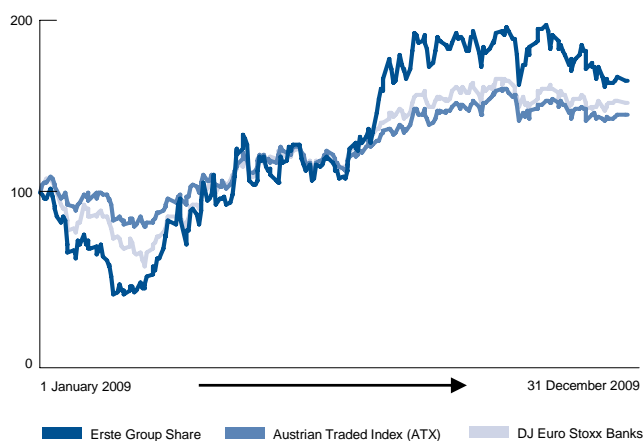
The second transaction concerned the issuance of 60 million new shares that were offered to retail and institutional investors from 2 to 17 November 2009. The offer consisted of a rights offer and a global offer of shares for which no subscription rights were exercised. At a price of EUR 29 per new share (rights and offer price), the transaction yielded gross proceeds of EUR 1.74 billion.

In addition to the spring road show held in May after the release of the results for the first quarter of 2009, a two-week road show was also carried out following the announcement of the third quarter results and the capital increase. Three teams consisting of members of the management, staff from the investor relations team and from the Group Equity Capital Markets Department hosted more than 100 one-on-one and group meetings with investors in the US, the UK, the Benelux states, France, Spain, Switzerland, Germany, Poland, Hungary, the Czech Republic and in Austria. Additionally, the management and the investor relations team took part in international banking and investor conferences organised by UniCredit, UBS, Goldman Sachs, HSBC, Deutsche Bank, Nomura, Merrill Lynch as well as by the Vienna Stock Exchange.

Overall, the management and IR team of Erste Group attended 544 one-on-one and group meetings (2008: 480 meetings) with Austrian and international investors last year.

As in previous years, two events were dedicated to the retail shareholders of Erste Group in 2009. On 15 June 2009, an Internet chat with the management board of Erste Group was held for the ninth time in a row. Many retail investors and interested parties had the opportunity to communicate directly with the chairman of the management board, Andreas Treichl. On 6 October 2009, shareholders had an opportunity to talk to the representatives of retail investors on the supervisory board of the Group. The lively interest in the Erste Group stock was documented by numerous research reports on Erste Group. Overall, 28 investment firms published reports on Erste Group, of which five were initial coverage reports.

Performance of the Erste Group Share and major indices (indexed)



Research coverage of Erste Group:

Atlantik Ft, Autonomous Research, Cheuvreux, Citi, Credit Suisse, Deutsche Bank, FBR Capital Markets, Goldman Sachs, HSBC, ING, JP Morgan, KBC, KBW, Kepler, Macquarie, MainFirst, BofA Merrill Lynch, Morgan Stanley, Nomura, Royal Bank of Scotland, Raiffeisen Centrobank, S&P, Sal. Oppenheim, Societe Generale, UBS, UniCredit, Wood.

We opened our doors 190 years ago,



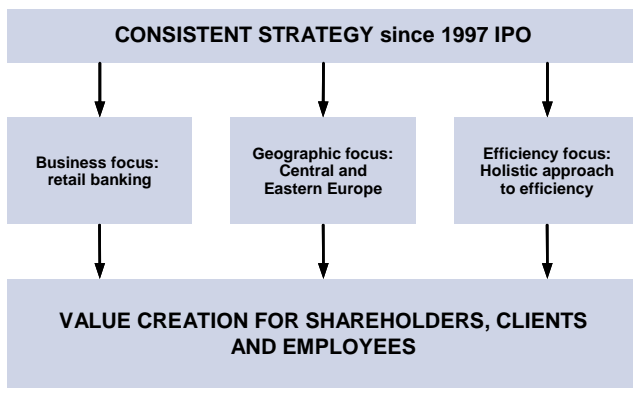
and haven't closed them since then.

Strategy

Strategy proves resilient in the economic downturn

Following the financial crisis of 2008, which exposed the weaknesses of business models that have strayed away from the traditional banking model, bank strategies were tested again in 2009 by the effects of the ensuing economic downturn, most notably, increasing default rates and higher risk costs. In confronting the deterioration in asset quality all banks were supported by central bank measures, such as a reduction in short-term interest rates and additional infusions of liquidity into the banking system. Nonetheless, bank strategies that were not built on lending responsibly in terms of loan-to-value and debt service ratios or that did not strike a reasonable balance between customer segments and geographies had to be adjusted.

Erste Group's strategy rests on 3 pillars



The key elements of our strategy have been in place since the initial public offering in 1997. The fact that even during difficult economic times no material changes were required is testament to its quality in terms of sustainability and balance, and a key competitive advantage. Overall, our strategy continues to rest on three pillars: the business focus pillar identifies the development of our retail and SME banking operations as our key activity; the geographic focus pillar defines Central and Eastern Europe as our home market and the efficiency focus pillar links these two, by setting out the vision of operating as efficiently as possible. The efficiency pillar covers all aspects of the business, rather than being confined to organisational efficiency or cost management; in 2009 the main topics in this respect continued to be the efficient management of capital and

liquidity resources in light of the discussion about the future direction of banking regulation and the management of the operating cost base in response to the economic downturn.

Business focus – retail banking

A clearly defined business focus lies at the core of our operations: we directly serve 17.5 million customers in eight core markets and operate some 3,200 branches, as well as state-of-the-art alternative distribution channels, such as internet and phone banking. Hence, while we do have substantial operations outside retail banking, retail banking is our core competence. This core competence in retail banking is a direct result of the bank's history and accordingly woven into Erste Group's genetic fabric. In 1819, wealthy Viennese citizens donated funds in order to establish Erste Group's predecessor, a savings bank. They aimed to bring affordable banking services to wide sections of the population. This goal is just as valid today as it was some 190 years ago, especially against the backdrop of operating in Central and Eastern Europe.

In today's context, retail banking is attractive to us for a number of reasons: it offers a compelling business case that is built on market leadership, a favourable risk-reward profile and the principle of self-funding; comprehensive scope in terms of product offering, covering simple and understandable products with substantial cross-selling potential; and, the opportunity to operate in well diversified markets both geographically and in terms of market maturity. In short, our retail banking model allows for sustainable, deposit-funded and profitable growth even in economically more challenging times.

The business case is characterised by a number of favourable parameters: market leadership in all key countries gives us a competitive edge in terms of pricing power, makes it easier to attract deposits, especially in tougher economic times, and offers a more diversified revenue base. The business case also benefits from a favourable risk reward profile resulting in a lower level of revenue and risk cost volatility than experienced in corporate or investment banking. Consequently, our earnings growth has historically been strong and stable, our provisioning levels were almost unchanged over a number of years and as a result our capital requirements were lower. While in the current economic environment earnings growth

will clearly slow down or disappear altogether, risk costs will go up and capital requirements will rise, we strongly believe that due to the continued underpenetration of most of our markets the retail business will remain profitable throughout the down cycle.

Our retail banking activities are not focused on a niche, but cover a comprehensive range of standard banking products that are simple and understandable and serve actual customer needs. The depth of the product range, comprising current accounts, debit and credit cards, deposits and investment products, and, mortgages and consumer loans, also translates into meaningful cross-selling potential among the existing customer base. The wide product mix also adds to customer and geographic diversification and means that we can draw on our broad product knowledge in mature markets and selectively apply those retail banking products that are most suited to our clients' needs in less developed markets.

Another positive factor is the diversification across customer segments and countries, which is a result of operating in a portfolio of markets that are at different stages of economic development: Austria is a mature and stable banking market, the Czech Republic, Romania, Slovakia, Hungary and Croatia are developing transformation economies, while Serbia and the Ukraine are emerging banking markets. In terms of customers, we mainly service private individuals in the mass and mass affluent market segments, free professionals, and micro as well as small and medium-sized enterprises.

Geographic focus – Central and Eastern Europe

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

Since then we have far surpassed our initial goals. Our home market now covers a contiguous region of 120 million inhabitants, we service 17.5 million customers, 16.5 million of whom are residents of the European Union, we have successfully integrated more than ten acquisitions in Central and Eastern Europe, and in Austria we have made a quantum leap forward in our efforts to work more closely with the savings banks through the establishment of a new cross-guarantee system. This agreement forms the basis for a wide-ranging cooperation between Erste Group and the savings banks covering such aspects as common back office structures, common marketing and common product development.

Creating a favourable risk-reward profile was always at the forefront of our expansion into Central and Eastern Europe. We achieved this by committing large investments to lower-risk EU member countries, such as the Czech Republic or Slovakia, while limiting exposure to high potential but high risk, non-EU member countries, such as the Ukraine or Serbia. This has yielded great benefits: shareholders have enjoyed sustainable earnings growth, customers can access our comprehensive range of services in more countries than ever before, and our employees have more development opportunities than at any time in the company's history. Consequently, we will continue on our proven path, maintaining and developing our footprint in Central and Eastern Europe.

Efficiency focus – a holistic approach to efficiency

Our aim to work more efficiently across the group is a direct result of our rapid expansion. It also reflects the realisation that a number of tasks are more efficiently carried out on a group-wide, standardised basis, while sales efforts are best handled locally. Or put differently, we aim to create a more successful banking group of what is already a successful group of banks. To this effect we established a group governance model in 2008 that clearly sets out the responsibilities of the holding company and the local subsidiaries.

The holding company – Erste Holding – executes classic steering functions and is also home to the two operating divisions Group Markets (GM) and Group Corporate and Investment Banking (GCIB). These divisions consolidate debt capital markets and treasury activities on the one hand and equity capital markets, corporate banking, real estate and international wholesale banking activities on the other. This allows better group-wide coordination, improved market presence and regional as well as industry-specific customer service. The local subsidiaries run the local retail and SME businesses. They are supported by group-wide platforms for regional business topics (e.g. retail cross-selling initiatives) that aim to ensure the adoption of best practices and exchange of experience across the group.

In light of the economic downturn we paid renewed attention to our cost base. While we have not instituted a blanket cost-cutting programme, we carefully re-examined all operating cost items. Through this bottom-up approach we have found various opportunities to achieve savings, most notably in the area of non-staff costs: we improved our group-wide sourcing capabilities, e.g. in the IT area, we scaled back our expenses for third party consultants and we reduced travel activity where appropriate. Supported by a small decrease in staff costs, which was mainly a result of reorganising operations in certain CEE countries, we managed to cut costs by nearly 5% in 2009. This excellent performance, which we view as sustainable, helped push the cost/income ratio down to 50.2%.

The efficient management of capital resources remained at the centre of attention in 2009, all the more as the Basel Committee published new proposals on banking regulation, covering primarily changed capital and liquidity requirements. While we believe that any new banking regulation will reflect the political will for banks

to return to their core business, i.e. collecting deposits and transforming them into credit for the real economy, we acted proactively in the past year and raised our capital ratios to levels that are unprecedented in our history: while the tier 1 ratio in relation to credit risk rose to 10.8%, the core tier 1 ratio in relation to total risk reached 8.3%, up from 5.2% a year earlier. This was a result of issuing new equity in the amount of EUR 1.7 billion and placing core tier 1 eligible participation capital with the Republic of Austria and private investors. The latter instrument was unique in so far as the terms of the EUR 500 million sold to private investors were the same as for the government. As our business model benefits from a favourable risk-reward profile, we feel more than well-equipped to cope with any upcoming regulatory changes or economic challenges.

LONG-TERM DEVELOPMENT DRIVERS

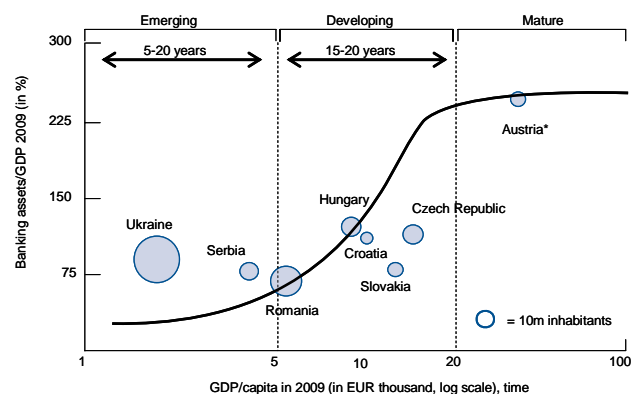
While strong business growth will clearly not be a topic for the immediate future as a result of the slow recovery in global economic fundamentals, we will still briefly present the long-term development patterns in our markets, as well as the three most important determinants of our long-term growth: retail business, wealth management and the continued business development within our existing CEE markets.

Development patterns

Our business model benefits from a long-term growth profile that extends over the next 15 to 20 years and is tied to the economic catching-up process of Central and Eastern Europe. While this process is characterised by phases of faster growth as well as retrenchment periods, the underlying trend is clearly pointing towards a long-term, sustainable growth path. Our business model derives its strength from the fact that our markets are at different stages of development. For this purpose, we have classified our markets into three clusters: emerging, developing and mature markets.

Emerging markets are characterised by a GDP/capita level of below EUR 5,000 and a banking asset penetration of some 60% or less; for classification purposes we use only GDP/capita as financial intermediation measures can temporarily show inconsistencies as a result of unsustainable growth bursts or a decline in GDP, which outstrips the pullback in the banking market. Depending on the economic position at the start of transformation, we estimate this period to take between 5 to 20 years. Within our business portfolio, Erste Bank Serbia and Erste Bank Ukraine, our Serbian and Ukrainian subsidiaries respectively, operate in such markets. At this stage of development growth is mostly derived from plain-vanilla banking products, such as savings and payments transfers as well as current accounts and debit cards. While household loans usually play an insignificant role at these levels of income, an increase in the banked population is typically a major source of growth.

Banking development stages in transformation economies



*) Domestic assets only.

Source: Local central banks, Erste Group.

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

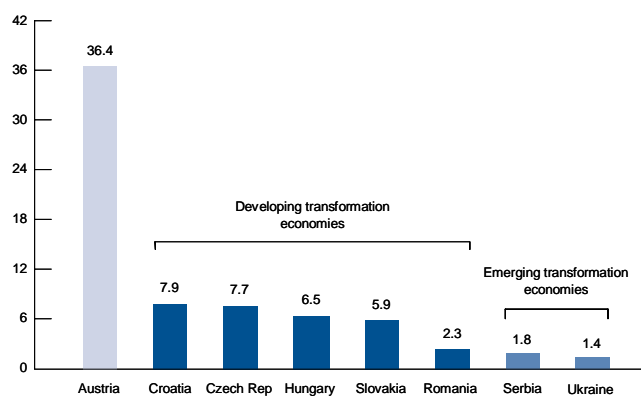
Mature markets are defined by GDP/capita in excess of EUR 20,000 and banking asset penetration north of 150%. These tend to offer only selected growth opportunities and typically only grow in line with GDP. We find it useful to operate in such markets to the extent that we can draw on experience and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

Retail business growth

In many of the countries in which we operate, modern retail banking services except for deposits were non-existent just a couple of years ago. On the lending side, this was firstly because nominal and real interest rates were high, secondly because disposable incomes did not support household credit growth, and thirdly, because of the lack of a healthy competitive environment due to high levels of state ownership. All this has changed over the past few years: in developing transformation economies interest rates are in the process of convergence or have already converged, disposable incomes have risen strongly on the back of overall GDP growth, and most state banks have been sold to foreign strategic investors fostering product innovation and competition. Even in the face of the current economic slowdown and potential temporary negative effects for the

banking systems in Central and Eastern Europe, this powerful combination will be the driver of future development.

Customer loans/capita in CEE (2009) in EUR thousand



Source: Local central banks, Erste Group.

The comparison of per capita indebtedness in Central and Eastern Europe with that of mature economies reveals an enormous gap that exists even today. Countries such as Hungary and the Czech Republic, but also Croatia and Slovakia are many years away from reaching Austrian, let alone West European levels of loans per capita; even on a relative basis these countries are far off Western levels. This picture is even more conspicuous in emerging economies: levels of private sector and especially household indebtedness in Serbia or Ukraine barely register on the radar screen in the context of developed economies. While the recent global economic decline will likely lead to a new assessment as to the sustainable level of debt, and to a decline in lending activity in Central and Eastern Europe at least in the short-term, we continue to believe that credit expansion accompanied by long-term economic growth will prove to be a secular growth trend, rather than a process that has already surpassed its peak.

Within the overall loan growth trend, we will particularly benefit from our focus on retail customers. In almost all of our markets, retail lending, particularly in the form of residential mortgages, has only just started. A case in point is mortgage penetration: it equals about 15% to 20% of GDP in our most developed markets, while it is still substantially lower in Romania, Serbia or the Ukraine. Even in Austria this measure only stands at about 25%, leaving room for growth, while in the European Union it reached an estimated 50% in 2009.

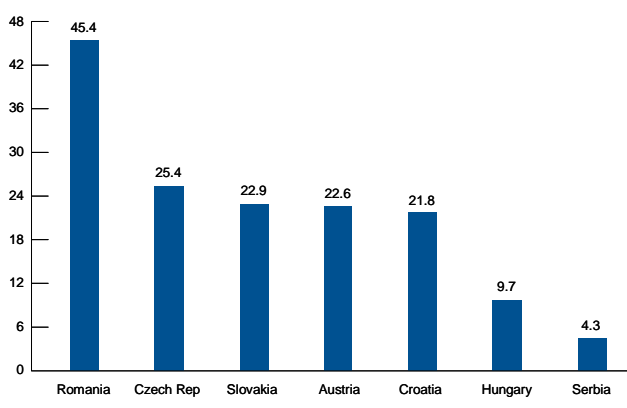
Wealth management

As customers become wealthier, another source of long-term growth will be wealth management, which covers our affluent banking and fund management activities. Irrespective of when this business actually becomes meaningful, we are already uniquely positioned to benefit from any such development: we dominate the fund management markets in our existing central and east European universe

with a market share of nearly 20%. In addition, we can draw on our experience in Austria, where we lead the market with a share of 22.6%. While we also used to be active in the life insurance business and established substantial footholds in all key CEE markets, we have sold off these operations to Vienna Insurance Group and entered into a long-term distribution agreement with them. This way, we will continue to benefit from the expected rise in demand for insurance products over the long term.

The growth dynamics in fund management differ fundamentally from those experienced in standard banking products, in so far as meaningful growth typically kicks in at a later stage of economic development. Based on historic trends in countries such as Spain or Austria, we estimate that growth in fund management reaches critical mass when nominal GDP/capita substantially and sustainably surpasses the EUR 10,000 mark. Almost all developing transformation economies, such as the Czech Republic, Slovakia, Hungary and Croatia have either surpassed or are closing in on this level. It is at this level that we believe basic consumption needs are satisfied and attention starts to shift towards providing for the future. The current economic environment is, of course, not conducive to substantial growth in wealth management activities in the short term, as clients focus on safety first and put any new money into deposit products, rather than committing it to mutual or pension funds.

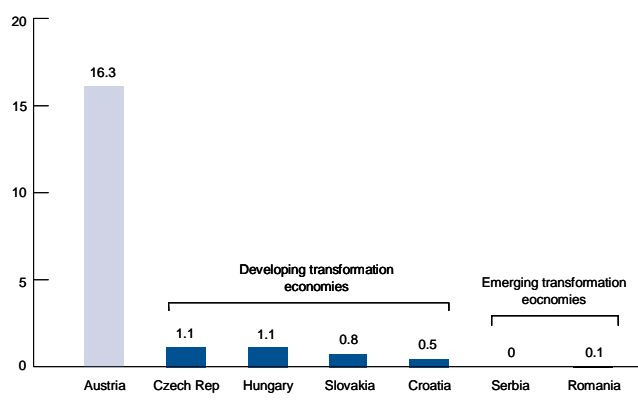
Fund management market shares (2009) in %



Source: Erste Asset Management.

This notwithstanding, the divide in fund management between mature and developing markets, on the one hand, and between developing and emerging transformation economies, on the other, is even more pronounced than that experienced in the area of loans. Funds under management per capita in Austria equalled EUR 16,300 at the end of 2009, while the same figure stood at about EUR 1,100 in the Czech Republic and Hungary, respectively. In Romania, the fund management market is in the very early stages of development, with funds under management standing at about EUR 800 million or only EUR 37 per capita. The same is true for Serbia, where total funds under management amounted to only EUR 22 million at the end of 2009.

Funds/capita in CEE (2009) in EUR thousand



Source: Local fund management associations, Erste Group.

The wealth management opportunity is best illustrated by a striking comparison. At the end of 2009 we managed assets of EUR 31 billion in Austria, a market of 8.4 million people. In our developed central and east European markets, covering the Czech Republic, Slovakia, Hungary and Croatia, which have a combined population of just over 30 million, the same figure stood at only EUR 5.3 billion. While growth patterns were severely disrupted in 2008 and 2009 the long-term trend still points towards faster growth in CEE. Based on the long-term catch-up trend developing CEE funds under management could reach 50% of the Austrian levels inside ten years.

Developing existing CEE markets

While we expect to be one of the major beneficiaries of the macro trends in retail banking and wealth management in Central and Eastern Europe, regional expansion through large-scale acquisitions will no longer be the preferred way to grow the business, at least not in the short or medium term. Even more so, considering that we are already operating in a well-diversified and underpenetrated market of 120 million people. The existing market therefore offers ample opportunities for business growth, even without adding further markets to the portfolio.

The quality of our existing franchise is a reflection of our measured acquisition policy in the past that struck a sensible balance between risk and return. In markets where political and economic risks were higher, typically in countries that had no immediate hope of joining the European Union, we limited our investments to levels that minimised our downside, while at the same time allowing us to capture the opportunity. Cases in point are our operations in Ukraine and Serbia. In the former we effectively entered the market through a greenfield operation, while in the latter we initially only established a regional, instead of a country-wide presence, reflecting our assessment of the market at the time. To countries that had a realistic prospect of speedy European integration, such as those in Central Europe, we committed substantial resources.

Irrespective of the actual market entry strategy, we always adhered to a defined set of guiding principles in our expansion. Firstly, within the EU we always bought a bank with a leading market position or when this was not feasible an operation that we felt had a chance of reaching a market share of 15% to 20% in terms of clients and/or retail products, either through bolt-on acquisitions or organic growth. Outside the EU, our operations had to offer a solid base to achieve such a market share if we saw fit. Secondly, any new bank had to fit the existing network and be beneficial to our clients. Thirdly, we only acquired majority stakes in order to exert full management control.

As a result of our successful acquisitions, we now occupy market leadership positions in key CEE countries such as the Czech Republic, Slovakia and Romania. We are also among the top five banks in Hungary and Croatia, and hold small market shares in Ukraine and Serbia. In markets where we already have a strong presence our goal is to maintain our market position; in other markets we will carefully assess the business environment in light of the evolving economic situation and distinguish between short-term tactical positioning and long-term growth. Even though, in the short-term this might lead to the scaling back of operations in fringe markets, such as Ukraine, we are firmly committed to all of our markets in the long term, and hence, aim to expand our market share especially in those countries of the eastern part of the European Union in which we are currently underrepresented.

Anyone doing business in CEE should know more than just facts and figures.



We also know the people behind the numbers.

Management Report

ECONOMIC ENVIRONMENT IN 2009

The global economic environment in 2009 continued to be under the influence of a significant recession that started in the fourth quarter of 2008. While emerging markets, such as India and China continued to grow, developed Western economies initially struggled to contain the downturn. Concerted government action, ranging from anti-cyclical spending and measures to support employment to tax relief and incentives, such as various car scrapping schemes, helped to stabilise the situation by the second half of the year. In addition to fiscal measures, central banks continued with their expansionary monetary policy in order to reignite growth; accordingly, interest rates remained at record lows throughout the year. While the real economy stabilised over time, stock markets started a powerful recovery in March, which lasted through the end of the year. Central bank policies aimed at improving the liquidity situation, the recovery in asset prices and a narrowing of spreads also contributed to the stabilisation of the global banking industry.

Austria followed a similar path as the rest of the world. After a weak start into 2009, the economy stabilised mainly as a result of government and central bank support; overall, the decline in real GDP growth was limited to an estimated 3.6% on the back of weaker exports but stronger than expected private consumption. The unemployment rate reflected the weakness in economic activity as it rose to 5.0% but still remained below the EU average. Public finances deteriorated in 2009 to an estimated deficit of 4.2% of GDP. This was the result of discretionary tax cuts and an erosion of the tax base as well as higher social expenditure in the wake of the recession. Public debt as a percentage of GDP deteriorated less than expected to 69.1%. In light of the economic situation inflation in Austria remained at historically low levels.

In Central and Eastern Europe all economic trends were more pronounced than in Austria in 2009. While the region grew much faster over the past years, the decline in real GDP growth was also much stronger, ranging from about 4% in the Czech Republic to 7% in Romania. Declining domestic demand was the main driver behind this development. This led to shrinking imports, which in turn supported the narrowing of the current account deficits. With the exception of Hungary and the Czech Republic the fiscal situation deteriorated in all of Erste Group's CEE markets; equally, public debt rose across Central and Eastern Europe, but remained at substantially lower levels than in Western Europe. In line with the economic

development, price pressure subsided across CEE, leading to single-digit inflation rates in all of Erste Group's core CEE markets.

PERFORMANCE 2009

Regarding the rates of change stated below it should be considered that in January 2009, Sparkasse Kufstein joined the Haftungsverbund (cross-guarantee system of the Austrian savings banks) and therefore has been included in the consolidated financial statements since that date. Furthermore, Ringturm KAG and Erste Bank ad, Podgorica (former (Opportunity Bank a.d., Montenegro), acquired by Erste & Steiermärkische banka d.d., was consolidated for the first time as of 31 March 2009. In addition, Investbanka a.d. Skopje, Macedonia, acquired by Steiermärkische Bank und Sparkassen AG, has been part of the consolidated financial statements since 1 October 2008 and was not included during the entire reporting period for the previous year. As the criteria for IFRS 5 (sale within 12 months) were not fulfilled for the sale of Anglo Romanian Bank, a reclassification from the item "Assets held for sale" to the respective balance sheet positions took place in 2009. This resulted in a minor distortion of the rates of change compared to the comparative periods for the previous year.

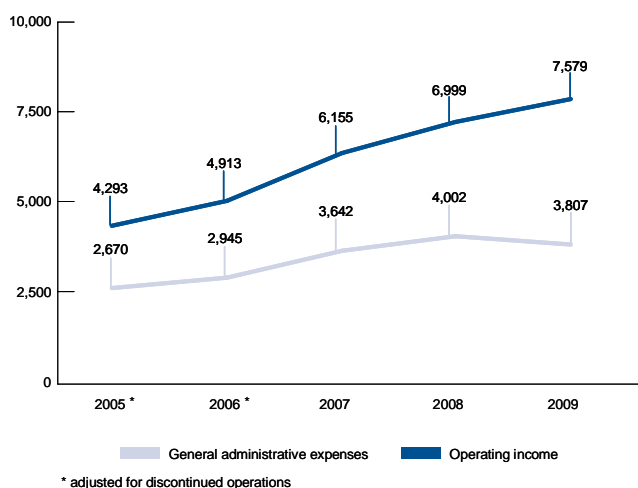
Overview

In 2009 **operating profit** rose to EUR 3,771.4 million (+25.8% vs. EUR 2,997.0 million in FY 2008). This was the best operating performance in Erste Group's history, driven mainly by higher net interest income and a better trading result as well as lower operating expenses. Net fee and commission income decreased.

Overall, **operating income** grew by 8.3% to EUR 7,578.8 million (following EUR 6,998.9 million). This increase was attributable primarily to the increase in net interest income (+6.3% to EUR 5,220.9 million) and the trading result (+410.1% to EUR 585.1 million). Net fee and commission income declined by 10.1% to EUR 1,772.8m.

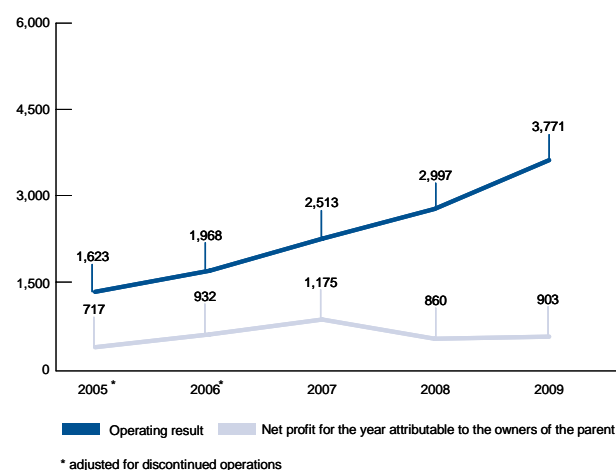
General administrative expenses decreased by 4.9% from EUR 4,001.9 million to EUR 3,807.4 million which had a major influence on this result. Consequently the **cost/income ratio** improved to 50.2% (2008: 57.2%).

Operating income and operating expenses in EUR million



Net profit for the year attributable to the owners of the company rose by 5.1% to EUR 903.4 million in 2009 despite an almost 100% increase in risk costs.

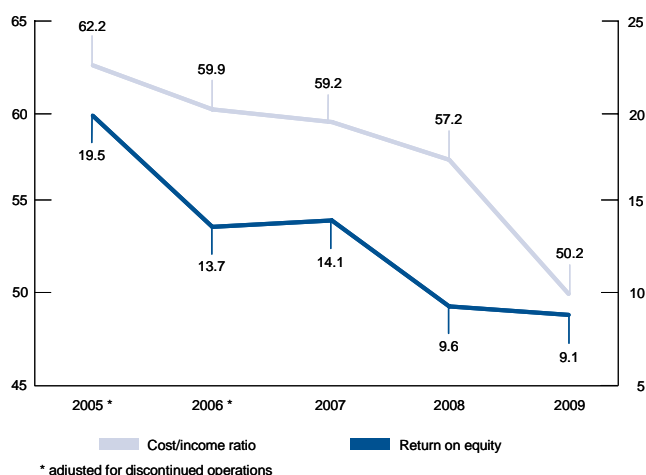
Operating result and net profit for the year attributable to the owners of the company in EUR million



By May 2009, Erste Group had issued participation capital with a total nominal value of EUR 1.76 billion. A share of EUR 1.224 billion was subscribed to by the Republic of Austria and EUR 540.0 million by private investors. In November 2009, Erste Group increased capital by placing EUR 1.74 billion with institutional and retail investors.

The **cash return on equity**, i.e. the return on equity adjusted for non-cash items, such as goodwill impairments and linear amortisation of customer relationships, in relation to the capital base enlarged by participation capital and the proceeds from the capital increase – dropped from 10.1% (reported value: 9.6%) in 2008 to 9.7% (reported value: 9.1%).

Key profitability ratios in %



Cash-earnings per share, i.e. the return on equity adjusted for non-cash items, such as goodwill impairments and linear amortisation of customer relationships, amounted to EUR 2.57 in 2009 (reported value: EUR 2.37) vs. EUR 2.89 (reported value: EUR 2.74) in the previous year.

At EUR 201.7 billion, **total assets** remained almost unchanged compared to year-end 2008.

The **solvency ratio** in relation to total risk improved from 9.8% at year-end 2008 to 12.7% as of 31 December 2009 due to the issuance of participation capital in an amount of EUR 1.76 billion and the capital increase of EUR 1.74 billion. It was therefore comfortably above the legal minimum requirement of 8.0%. The **tier 1 ratio** in relation to credit risk was 10.8% as of 31 December 2009, following 7.2% at year-end 2008.

Dividend

At the annual general shareholders' meeting, the management board will propose a dividend payout of EUR 0.65 per share (prior year: 0.65).

Outlook

Supported by the stabilisation of the global economy in the second half of 2009, the countries of Central and Eastern Europe have also emerged from recession and are expected to enjoy moderate growth in 2010. While this should continue to have positive effects on asset quality, any improvement will be gradual in nature and influenced by the development of key economic variables, most notably unemployment. Accordingly, Erste Group continues to expect risk costs to remain elevated.

Irrespective of the speed of the economic recovery, Erste Group firmly believes in the strength of its retail business model – a belief that is backed up by the group's outstanding operating performance throughout the economic downturn.

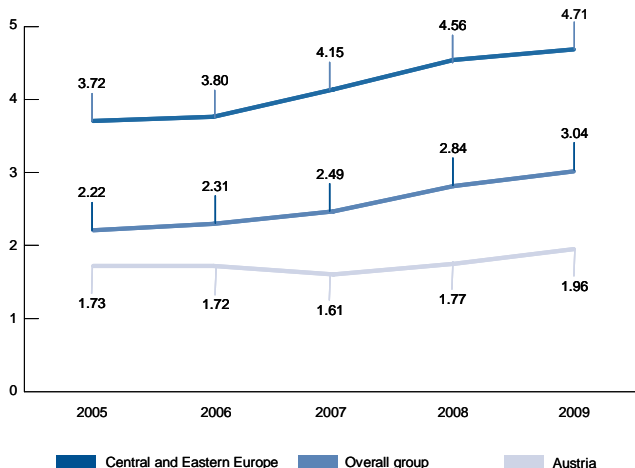
Erste Group is equally confident that the timing and structure of any new regulatory framework for banks will be carefully considered, as policy makers and regulators increasingly appreciate the consequences of any such measures for the growth prospects of the real economy.

ANALYSIS OF PERFORMANCE

Net interest income

Net interest income rose by 6.3% vs. 2008, from EUR 4,913.1 million to EUR 5,220.9 million. The key reasons for this were – despite the adverse interest rate trend in some countries – relatively stable margins and the robust rise in lending in the first three quarters of 2008, which slowed considerably when the economic crisis set in.

Net interest margin in %

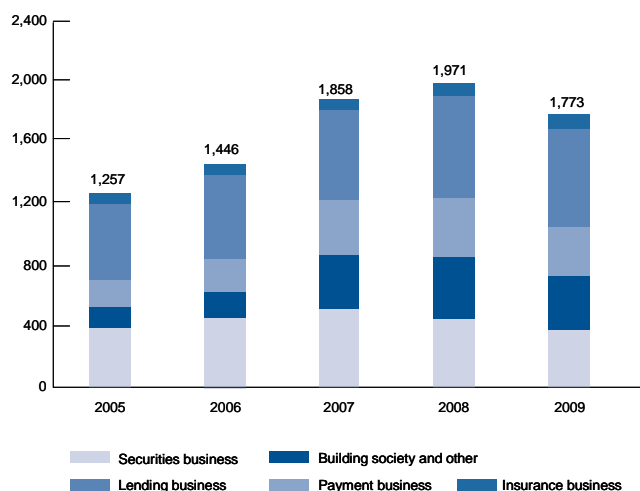


Net interest margins (net interest income as a percentage of average interest-bearing assets) rose from 2.84% in 2008 to 3.04% in 2009 – both in Central and Eastern Europe (from 4.6% to 4.7%) as well as in Austria (from 1.8% to 2.0%). Adjustments of interests for corporate business and capital measurements influenced this development positively.

Net fee and commission income

Net fee and commission income decreased in 2009 by 10.1%, from EUR 1,971.1 million to EUR 1,772.8 million.

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



The steepest drop was seen in the securities business (-16.3% to EUR 377.8 million) and the lending business as a result of sluggish new business (-15.6% to EUR 317.1 million). In contrast, the insurance brokerage business developed positively (+7.1% to EUR 95.5 million). This was due to the distribution agreement concluded with Vienna Insurance Group as part of the sale of the insurance business in the previous year.

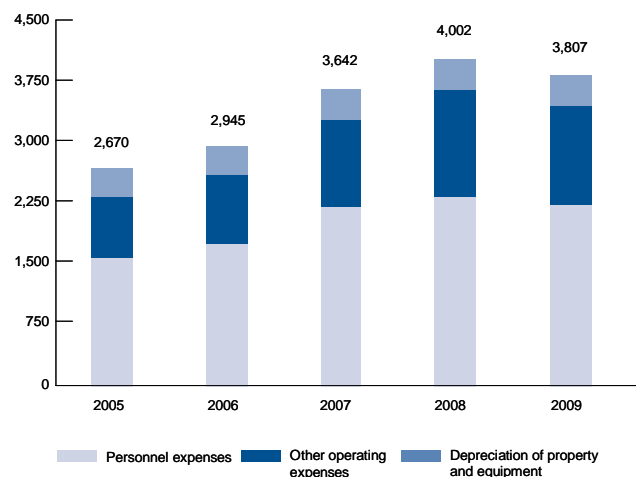
Net trading result

The net trading result increased by 410.1% from EUR 114.7 million in 2008 to EUR 585.1 million in 2009. The strong rise was on the one hand due to the weak net trading result of 2008 and increases in fixed income business (bond trading and money market business) as well as foreign exchange and equity trading, on the other.

General administrative expenses

General administrative expenses were down by 4.9%, or 1.2% on a currency-adjusted basis, from EUR 4,001.9 million to EUR 3,807.4 million, even though the enlarged scope of consolidation – Sparkasse Kufstein joined the cross-guarantee system – increased the cost base by EUR 18.0 million.

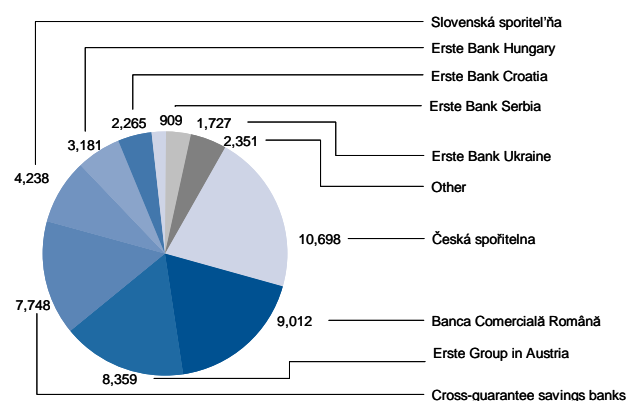
General administrative expenses, structure and trend, in EUR million



Personnel expenses decreased by 3.7%, or 0.6% on a currency-adjusted basis, from EUR 2,313.8 million to EUR 2,227.5 million. The lower headcount had a positive effect, which more than compensated the annual wage adjustments.

As of December 2009 the Erste Group employed a total of 50,488 people (31 December 2008: 52,648)

Headcount at 31 December 2009



Factors influencing the headcount were the consolidation into the Haftungsverbund (cross-guarantee system) of a further savings bank (+199 employees) at the start of the year, the first-time consolidation of Erste Bank ad Podgorica in Montenegro (+213 employees into Erste Bank Croatia) as well as cost-cutting measures. The decline at BCR was related to the outsourcing of non-banking services which was one of the last measures taken under the efficiency programme launched at the time of the acquisition.

Other administrative expenses decreased by 8.4% (currency-adjusted 4.0%) in 2009, from EUR 1,313.1 million to EUR 1,202.3 million.

Depreciation and amortisation rose by 0.7% or 4.7% on a currency-adjusted basis from EUR 375.0 million in the previous year to EUR 377.6 million in 2009, but was still lower than in 2007.

Operating result

The increase in **operating income** of 8.3%, from EUR 6,998.9 million to EUR 7,578.8 million and the reduction in **general administrative expenses** of 4.9% from EUR 4,001.9 million to EUR 3,807.4 million resulted in an increase of **operating result** from EUR 2,997.0 million in 2008 by 25.8% to EUR 3,771.4 million in 2009.

Risk provisions

Risk provisions, i.e., the balance of the allocation/release of provisions for the lending business and the costs of direct loan write-offs and income from recovery of loans already written off, increased by 92.0% from EUR 1,071.4 million to EUR 2,056.6 million. The deteriorating macroeconomic conditions, the related increase in credit defaults and the worsening of borrowers' creditworthiness were the reasons for the allocation of additional risk provisions. As a percentage of average customer loans, risk costs amounted to 161 bps in 2009 (2008: 88 basis points).

Other operating result

The other operating result improved from EUR -778.8 million to EUR -355.8 million 2009. This was mainly due to the fact that the previous year was impacted by goodwill write-downs in the order of EUR 579.1 million (mainly for Serbia, Ukraine and Romania), which did not recur in 2009. One-time write-downs on the Czech real estate portfolio (EUR 81.7 million) and the Romanian leasing portfolio (EUR 17.9 million) had a negative effect on this item. Moreover, this item also includes linear amortisation of intangible assets (customer relationships) of EUR 67.2 million (2008: EUR 76.9 million) as well as deposit insurance contributions, which rose by 23.4% year-on-year to EUR 55.9 million.

Result from financial assets

The overall result from all categories of financial assets continued to develop positively. The total negative result reported in 2009 was much lower at EUR 97.7 million than in 2008 (EUR -570.6 million). While impairments on structured products and other securities in the available for sale portfolio declined only marginally in 2009, the year-on-year valuation gains on securities of the fair value portfolio had a positive effect on this line item. Furthermore, much lower impairments on the held-to-maturity portfolio (HtM) had a positive effect on results from financial assets.

The market value of the **ABS and CDO portfolio** of Erste Group including the savings banks was around EUR 1.9 billion on 31 December 2009 compared to EUR 2.0 billion as of year-end 2008. In 2009, the revaluation changes of the fair value portfolio impact-

ing income came to EUR 56.5 million. In the AfS portfolio, the revaluation changes impacting income amounted to EUR -75.3 million (depreciation of EUR 42.1 million and realised losses of EUR 33.2 million). This resulted in a negative overall effect on income after taxes and minorities of EUR 13.1 million in 2009 (2008: EUR -126.7 million). However, in the available-for-sale portfolio, the mark-to-market valuation in 2009 resulted in a gain – netted against equity – of EUR 281.8 million (2008: down by EUR 548.6 million).

Pre-tax profit from continuing operations and net profit for the year attributable to owners of the parent

The pre-tax profit from continuing operations improved by 118.9% from EUR 576.2 million to EUR 1,261.3 million.

Net profit for the year attributable to owners of the parent rose by 5.1% from EUR 859.6 million in 2008 to EUR 903.4 million in 2009.

Tax situation

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

For 2009 this profit pool incurred no current tax expense for Austrian corporate income tax. This was mainly attributable to high non-taxable dividend income. The amounts reported under taxes on income thus relate primarily to foreign income-based taxes, deferred tax assets and liabilities recognised under IFRS, as well as tax payable by smaller Austrian subsidiaries and various Haftungsverbund savings banks.

In 2009 the reported total income tax expense amounted to EUR 284.7 Mio (2008: EUR 177.3 Mio).

The tax rate decreased from 30.8% in 2008 to 22.6% in 2009.

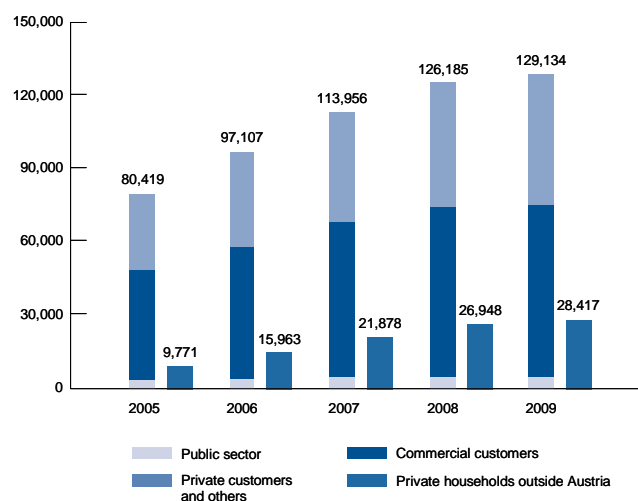
Balance sheet development

Total assets of Erste Group remained almost unchanged at EUR 201.7 billion (year-end 2008: EUR 201.4 billion).

Loans and advances to credit institutions decreased by 8.4%, from EUR 14.3 billion to EUR 13.1 billion mainly driven by foreign interbank business.

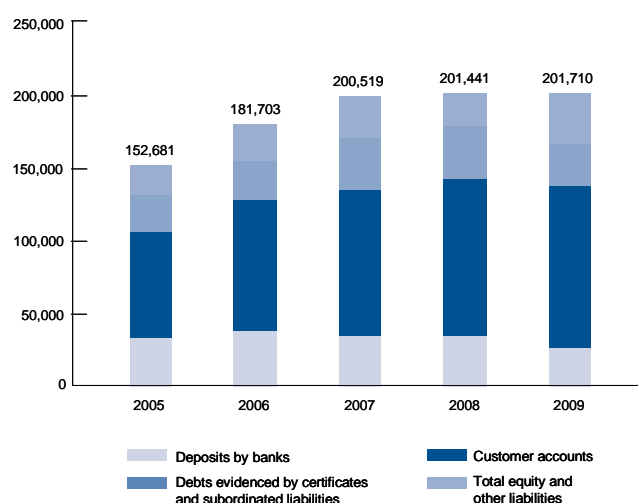
Loans and advances to customers were up by 2.3% (2008: +10.7%), from EUR 126.2 billion to EUR 129.1 billion, with the most significant increases recorded in the retail business and in Central and Eastern Europe.

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



Risk provisions for loans and advances increased from EUR 3.8 billion to EUR 5.0 billion due to new allocations as a result of the difficult economic conditions. The ratio of non-performing loans to loans and advances to customers grew from 4.7% to 6.6% as of 31 December 2009, while the ratio of non-performing loans to total exposure increased from 2.9% to 4.1% over the same period. The rate of deterioration of both key figures continued to slow down significantly in the fourth quarter of 2009. The NPL coverage ratio continued on its positive trend, rising from 56.7% in the third quarter to 57.2% (year-end 2008: 62.8%).

Balance sheet structure/liabilities and total equity in EUR million



Investment securities in the various categories of financial assets remained unchanged at EUR 34.3 billion (2008: EUR 34.2 billion). The decrease of 26.1% in the fair value portfolio, and in this case,

with respect to both debt securities and other securities was offset by increases in the HtM portfolio of 5.3% and in the AfS portfolio of 2.2%.

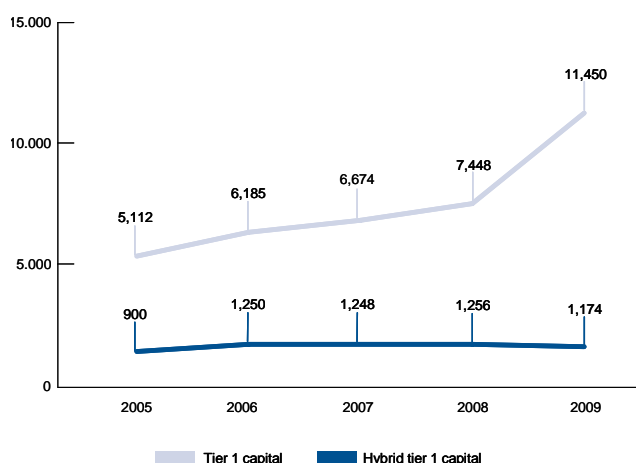
Customer deposits rose by 2.5% from EUR 109.3 billion to EUR 112.0 billion and therefore more than customer loans. Increases were recorded at all subsidiaries. The loan-to-deposit ratio as of 31 December 2009 was unchanged at 115.3% (31 December 2008: 115.4%).

Debt securities in issue declined by 2.9%, from EUR 30.5 billion to EUR 29.6 billion.

As a consequence of the issuance of participation capital in the amount of EUR 1.76 billion and the capital increase of EUR 1.74 billion, the **total equity** of Erste Group rose by 45.3%, from EUR 11.1 billion to EUR 16.1 billion as of 31 December 2009. The improvement in the AfS reserve by EUR 1.1 billion also contributed to this development.

Risk-weighted assets (RWA) rose from EUR 103.7 billion to EUR 106.4 billion as of 31 December 2009. This moderate increase was due to slow business growth and targeted risk reduction measures, especially with regard to off-balance sheet items, which mostly offset crisis-related pro-cyclical effects.

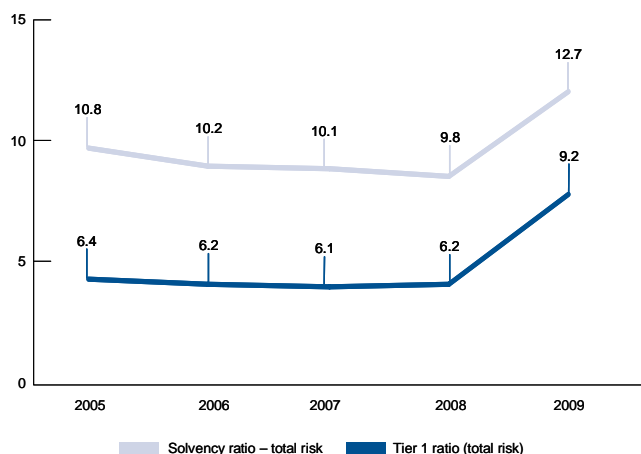
Tier 1 capital under ABA and hybrid tier 1 capital in EUR million



Total eligible **qualifying capital** of Erste Group according to the Austrian Banking Act amounted to EUR 15.8 billion (31 December 2008 EUR 11.8 billion) as of 31 December 2009. The increase was largely due to the issuance of participation capital in an amount of EUR 1.76 billion and the capital increase of EUR 1.74 billion. The cover ratio with respect to the statutory minimum requirements as of the reporting date (EUR 9.9 billion) was 159% (year-end 2008: 123%).

The **tier 1 capital** after the deductions defined in the Austrian Banking Act equalled EUR 11.5 billion (year-end 2008: EUR 7.4 billion).

Solvency ratio and tier 1 ratio (total risk) in %



The **tier 1 ratio** based on credit risk (tier 1 capital after deductions pursuant to the Austrian Banking Act as a percentage of the assessment base for credit risk pursuant to section 22 (2) Austrian Banking Act) reached a historic high at 10.8%. Taking into account the capital requirements for market and operational risk, the tier 1 ratio (total risk) was 9.2%; after further adjustments for hybrid capital, the core tier 1 ratio was 8.3% as of 31 December 2009.

The **solvency ratio** in relation to total risk (total eligible qualifying capital – as a percentage of the assessment base for total risk pursuant to section 22 (1) Austrian Banking Act) was 12.7% as of 31 December 2009 (year-end 2008: 9.8%) and thus clearly above the legal minimum requirement of 8.0%.

RISK MANAGEMENT

With respect to the explanations on financial risks at Erste Group as well as the goals and methods of risk management, we would like to draw the reader's attention to the information in the Notes to the consolidated financial statements.

RESEARCH AND DEVELOPMENT

Erste Group does not have any activities in research and development.

CORPORATE SOCIAL RESPONSIBILITY

For Erste Group, Corporate Social Responsibility (CSR) is a deeply-rooted reality with the clear goal of creating and securing sustainable value. The Bank's corporate strategy is guided by economic, ecological and social challenges, and it endeavours to involve all relevant stakeholders including customers, employees, investors and civil society.

Customers

Erste Group is constantly working to improve the quality of its services. Therefore, in 2009 Group-wide quality standards were introduced in order to ensure a uniform level of services at all subsidiaries. Additionally, Erste Group defined the focus of its efforts on the support of customers during the economic downswing in 2009. Under the motto "Helping Hands", almost all subsidiaries started activities to help customers cope with unemployment, tighter budgets and the general deterioration of the financial situation. The activities started in the individual countries included free accounts, voluntary loan repayment insurance, and special loans for education and training seminars. In the corporate customer segment, Erste Group also made an effort to counteract the perceptible insecurity prevailing among businesses, especially among SMEs. The bank supported companies to regain their financial stability by granting inexpensive business loans and loans for investments in capital goods.

Ethical investments

In 2009, the Austrian Asset Management Gesellschaft of Erste Group, ERSTE-SPARINVEST KAG, continued its initiatives in the areas of "sustainable theme funds" and "sustainable investment in Central and Eastern Europe". In 2009, a team of specialists for sustainable investments managed a total of eight sustainable funds. The flagship product of the Group is the ESPA VINIS STOCK GLOBAL, which in 2009 was named the best global sustainability fund in Austria and Germany by the German consultant Feri.

Financial inclusion

In 2008, Erste Group and its largest shareholder, ERSTE Stiftung, started the initiative "Banking the Unbanked" with the aim of targeting the inhabitants of Central and Eastern Europe that do not yet use banking services. The organization founded for this initiative, good.bee Holding, started its activities in January 2009 with the aim of improving access to financial services for those groups of the population that for economic, social or other reasons are not sufficiently serviced by commercial banks. good.bee promotes access to financial services mainly in two ways: On the one hand, it concentrates on micro-financing, and on the other, it focuses on social enterprises, i.e. the development of market-based business models and financing solutions for the social sector.

Civil society

Erste Group is committed to the principle of giving back some of its success as a company to the community. "Kontakt. Programme for the Arts and Civil Society of Erste Group" serves as the Group's framework for all social and cultural initiatives and activities.

Arts and culture

In the area of culture, Erste Group continued its numerous culture promotion activities in 2009: Erste Group was a partner of the film festival Viennale, the fair VIENNAFAIR – an international contemporary art fair with CEE focus – as well as the renowned art institution, Secession. The Bank sponsored the widely recognized literature prize Jean Améry, and supported the “Unabhängige Literaturhaus Niederösterreich (ULNÖ)” (Independent House of Literature of Lower Austria). The platform, Transit, founded in 2002, is still dedicated to the promotion of contemporary art and theory in the region of Central and Eastern Europe. A further focus of the programme is the art collection of Erste Group that includes the production of art in Central, Eastern and Southern Europe also taking into account contemporary art discourse and critical theory.

Social Activities

Erste Group and Caritas are not only long-year partners, but also bound together by the common objective of sharing responsibility for a stable and peaceful development of society in Central and Eastern Europe. Therefore, Erste Group has been supporting its partner Caritas since 1999 in its work for children in the poorest countries of Europe.

Education

Erste Group subsidiaries regularly support educational projects in collaboration with universities and other educational institutions. These include, for example, the cooperation projects of Slovenská sporiteľňa with national universities that focused on education in the European context in 2009. In Romania, Erste Group launched a nation-wide educational programme under the title “My Personal Finances” in which more than 3,500 students from 35 cities informed themselves on financial systems and how they function in practice with the support of BCR employees provided on an honorary basis. In Serbia as well, the Bank promoted education by subsidizing elementary and secondary schools as well as by supporting alternative educational programmes. Furthermore, Erste Bank Serbia started a collaboration scheme with the organisation “Junior Achievement” that prepares students for working life and the basics of entrepreneurship in practice as well as providing financial know-how.

Corporate volunteering

A key element of the Corporate Social Responsibility of Erste Group is the voluntary work of its employees. A Corporate Volunteering Programme of Erste Bank Serbia was founded in 2008 to raise awareness for honorary work and social commitment. Česká spořitelna permits its employees to work for charity organizations during their working hours at normal pay. In Austria as well, employees of the Bank have the chance of taking responsibility for innovative projects for limited periods at selected NGOs.

Staff

Human resources were dominated by the financial and economic crisis in 2009. Despite the solid result achieved in 2008, the man-

agement board and the second management level all voluntarily relinquished their bonus payments.

Development of Human Resources

As regards human resource development, all projects planned were continued or started on schedule: These include the Group Leadership Development Programme as well as the Group Junior Trainee Programme, which was completed very successfully in August 2009. At the local level, special attention was paid to avoid any cuts to training programmes in order to signal continuity at all levels to employees. At the holding company itself, a programme for potential young managers was started. The Erste School of Banking and Finance started the first Group-wide standardized educational programme in close collaboration with the diverse business areas in the so-called Business Colleges. “Learn, Reflect, Exchange, Network” is the motto of a series of lectures offered by Erste School of Banking and Finance to interested employees.

The findings derived from the Group-wide survey conducted in 2007 were also implemented in 2009 with the appropriate measures. The next Group-wide survey is scheduled for 2011, and it is planned to conduct a survey every four years.

Health

The health of Erste Group's employees was a major concern in 2009 as well. Preventive medical check-ups were offered to all employees in Austria and this offer was taken up by 60% of employees. For the first time, blood tests were also taken to identify oxidative stress. Extensive life style advice given by occupational physicians was provided with a focus on the early recognition of risk factors for cardio-vascular diseases.

Environment

Erste Group endeavours to reconcile long-term entrepreneurial decisions and daily business routines with the principles of sustainable development. Erste Bank Oesterreich and Erste Group Bank (Holding) dealt intensely with the topic of environmental data management in the financial year 2009. For the first time, complete carbon footprint analyses were conducted in accordance with the standards defined by IPCC and all essential environmental data was collected and evaluated for both organisations and their functional subsidiaries. This significantly enlarged and refined the scope of data collection as compared to the financial year 2008.

The positive trend in the environmental data is founded on a number of measures such as the optimization work on the heating systems and controls, lighting and the targeted use of cooling and air conditioning technology. Furthermore, the switch in the vehicle fleet to the efficient Blue Motion technology and natural gas, technical changes to PCs and, above all, higher awareness among employees and their inclusion.

The other subsidiaries are also making special efforts to increase their energy efficiency. In Romania, the project ECO BCR was started to raise environmental awareness and increase expert knowl-

edge in this specialized area. Česká spořitelna took part in a programme organized by the government environmental fund (SEF) “Green Light for Energy Saving” for which the bank has been handling the application procedures and the payout of subsidies to successful applicants since June 2009.

INFORMATION PURSUANT TO SECTION 243A AUSTRIAN COMMERCIAL CODE

As of 31 December 2009, DIE ERSTE österreichische Spar-Casse Privatstiftung (hereinafter: “Foundation”) held a direct stake in Erste Group Bank AG of around 26.11%. This makes the Foundation to the largest individual shareholder.

Regulations relating to the appointment and dismissal from office of members of the management board and of the supervisory board that are not directly derived from legislation refer to Item 15.4 of the articles of association. According to these regulations, the dismissal from office of a member of the supervisory board requires a majority of three-quarters of the valid votes cast and a majority of three-quarters of the subscribed capital represented at the meeting that passes the resolution.

The articles of association do not contain any restrictions that refer to voting rights or the transfer of shares. A retention period of one year applies to the employee stock option schemes (MSOP/ESOP).

Regulations not derived directly from legislation that relate to amendments to the articles of association of the company are described in Item 19.9 of the articles of association as follows: Changes to the articles of association, which do not change the object of business of Erste Group Bank AG, may be adopted by the annual general meeting by a simple majority of votes cast and a simple majority of the subscribed capital represented at the meeting that passes the resolution. Regulations in the articles of association that prescribe higher majorities can only be amended by applying the same requirements of higher majorities. Furthermore, Item 19.9 of the articles of association can only be amended with a majority of three-quarters of votes cast and a majority of three-quarters of the subscribed capital represented at the meeting that passes the resolution.

The following are agreements of material significance to which Erste Group Bank AG is a party and which become effective, change or are terminated whenever there are changes to controlling interests as a consequence of a takeover bid:

The stock option plan of Erste Group Bank AG includes the following special regulations in the event of a takeover bid (§ 17 of the stock option plan):

(1) Should a takeover bid for the shares of Erste Group Bank AG be announced to the public, all options that have been granted to the eligible management staff by that time but have not yet been allot-

ted, will immediately be allotted to the eligible management staff that meet the personal requirements for participation.

(2) In this case, the allotment cut-off date, the end of the exercise period, and the date of record will be determined by the management board of Erste Group Bank AG. These dates shall be chosen in a manner that permits the exercise of the options and the sale of the shares during the takeover bidding procedures.

(3) In this case, no selection of key personnel and/or the granting of options to such persons shall be carried out.

(4) All options granted and allotted may be exercised by the eligible recipients from the day following the allotment date the regulations of Section 11(1) (2) (minimum holding period for options) and Section 12(1) sentence 1 (exercise window) do not apply. The stocks subscribed may be offered for sale within the scope of the takeover bid; Section 16 (holding period) does not apply.

(5) Moreover, for all previously purchased stocks still subject to a holding period (Section 16), this holding period ends when the takeover bid is announced to the public.

(6) Should the takeover bid be withdrawn without there being any rival takeover bid, the options allotted under par. 1 not yet exercised are subject to a blocking period of one year from the publication of the withdrawal of the takeover bid, while stocks already purchased with the options allotted pursuant to par. 1 become subject to a retention period of one year from the cut-off date of the allotment. Retention period(s) pursuant to par. 5 that are expired do not become effective again.

Erste Stiftung (Foundation) and Criteria CaixaCorp SA (Criteria) entered into a cooperation agreement (Preferred Partnership Agreement, PPA) according to which Erste Stiftung grants Criteria the status of an associated investor and preferred stakeholder. Under the PPA, Criteria has the right to determine a person to be nominated to the supervisory board of Erste Group Bank AG. In return, Criteria has agreed to refrain from participating in any hostile takeover bid for the shares of Erste Group Bank AG and to grant Erste Stiftung the pre-emptive rights to shares and option rights to shares of Erste Group Bank AG held by Criteria. Under the PPA, Erste Stiftung agrees – with the exception of certain circumstances – to refrain from granting any third parties rights that are more favourable than those granted to Criteria. PPA does not impose any restrictions on the exercise of voting rights in Erste Group Bank AG for Erste Stiftung or for Criteria. PPA has been approved by the Austrian Takeover Commission.

The general agreement of the Haftungsverbund (cross-guarantee system) contains regulations for premature termination due to material breach of contract. A material breach of contract permitting the respective other contractual party to terminate the agreement is given if the ownership structure of a contractual party changes in such a way – particularly by transfer or capital increase – that one or

more third parties from outside the savings bank sector directly and/or indirectly gain a majority in the equity capital or voting shares of said contractual party.

The general agreement and the supplementary agreement for the Haftungsverbund (cross-guarantee system) expire if, and as soon as, an entity that is not a member of the savings bank sector association acquires more than 25% of the voting rights or equity capital of Erste Group Bank AG in any manner whatsoever, and a member savings bank notifies its withdrawal from the Haftungsverbund to the Haftungsgesellschaft and to Erste Group Bank AG by registered mail within twelve weeks from the change in controlling interests.

Directors and officers Insurance

Changes in controlling interests

(1) In the case that any of the following transactions or processes (each constituting a “change of control”) occur during the term of the insurance policy with respect to the insured party:

- a) the insured party ceases to exist as a result of merger or combination, unless it is a merger or combination of two insured parties, or
- b) another company, person or group of companies or persons acting in concert that is/are not insured parties, acquire more than 50% of the insured party’s outstanding equity or more than 50% of its voting shares (this gives rise to the right to control the voting power represented by the shares, and the right to appoint the management board members of the insured), then the insurance coverage under this policy remains in full force and effect for claims relating to unlawful acts committed or alleged to have been committed before this change of control took effect. However, no insurance coverage is afforded for claims relating to unlawful acts committed or allegedly committed after that time (unless the insured and insurer agree otherwise). The premium for this insurance coverage is deemed to be completely earned.

(2) In the event that, during the life of the policy, a subsidiary ceases to be a subsidiary, the insurance cover under this policy shall remain in full force and effect for that entity until the end of the policy period or (if applicable) until the end of the extended discovery period, but only in respect of claims brought against an insured party in relation to unlawful acts committed or alleged to have been committed by the insured during the existence of this entity as a subsidiary.

No insurance coverage is afforded for claims brought against an insured party in relation to unlawful acts committed or allegedly committed after this entity ceases to exist.

With respect to the management board members’ authority to buy back shares that is not derived directly from the law:

By resolution of the annual general meeting held on 12 May 2009,

(1) the Company is authorised to purchase its own shares pursuant to Section 65 par. 1 fig. 7 Austrian Stock Corporation Act for the purpose of securities trading; at the end of each day, the balance of shares acquired for this purpose is not permitted to exceed 5% of Erste Group Bank AG’s total share capital. The price paid per share must not be less than half of the closing price on the Vienna Stock Exchange on the last day of trading before the purchase and not more than twice as much as the closing price on the Vienna Stock Exchange on the last day of trading before the purchase. This authorisation is effective for a period of 30 months, therefore, it ends on 11 November 2011.

(2) the management board is authorised to purchase, subject to the approval of the supervisory board, the company’s own shares pursuant to Section 65 par. 1 fig. 8 Austrian Stock Corporation Act, with the percentage of the shares purchased under this authorisation and pursuant to Section 65 par. 1 figures 1, 4 and 7 of the Austrian Stock Corporation Act not being permitted to exceed 10% of the share capital. The price paid per share must be not less than EUR 2 and not more than EUR 100. The company is required to publish the relevant management board decision as well as the resulting buy-back programme and its duration. The own shares purchased under these regulations may, subject to the approval of the supervisory board, be disposed of in a manner other than via the stock market or public offering; for instance, they may be used as compensation when acquiring, or for financing the acquisition of companies, enterprises, partial ownership or other interests in companies in Austria or abroad. The management board is also empowered to withdraw own shares without requiring a further AGM resolution. This authorisation is effective for a period of 30 months, therefore it ends on 11 November 2011.

All acquisitions and disposals made were consistent with the authorisation granted by the annual general meeting.

INFORMATION PURSUANT TO SECTION 243 (3) AUSTRIAN COMMERCIAL CODE

There were no events of major significance after the balance sheet date.

As Erste Bank Group AG does not conduct any independent and regular research for new scientific or technical findings or any leading development work for commercial production or use, it does not engage in any research or development activities pursuant to Section 243 par. 3 fig. 3 Austrian Commercial Code.

Erste Group Bank AG maintains three branches in London, New York and Hong Kong that are active in the commercial lending business with foreign banks, leasing companies and sovereign debtors.

INFORMATION PURSUANT TO SECTION 243 (2) AUSTRIAN COMMERCIAL CODE

Erste Group Bank AG has a complex internal controlling system with mechanisms that include, above all, the principle of double-checking, IT-supported controlling, and decision-making powers oriented on risk exposure and surveillance instruments. A presentation of the organisation of reporting as regards accounting procedures is contained in the Manual on IFRS Accounting for Erste Group. It is mandatory for the concerned units to adhere to the accounting and measurement methods applicable to the recording, booking and accounting of transactions.

Organisationally, the areas Group Accounting and Group Performance Management are assigned to the CFO of Erste Group Bank AG. Monthly and quarterly reports to the management board and the supervisory board ensure regular financial reporting and the surveillance of the internal management accounting system. The close collaboration with the Group's auditors assures an extensive and efficient external auditing of the financial statements.

Reporting is done almost fully automatically using pre-systems and automatic interfaces, and guarantees that the data for management accounting, (segment) and earnings accounting and other evaluations are up to date. The information used by the accounting department is based on the same database and is matched monthly for reporting. Close collaboration between the accounting and controlling departments means the constant comparison of targets and the actual data. This guarantees the mutual checking and harmonisation of the departments.

We would like to point out the publication of consolidated quarterly financial statements of Erste Group Bank AG as well as the ongoing regulatory reporting obligations with respect to external reporting. The quality of internal management accounting is constantly being assessed by the internal revision. The internal revision works closely together with the responsible management board members and managing directors, and regularly reports to the audit committee of the supervisory board.

Vienna, 2 March 2010

The Management Board

Andreas Treichl mp
Chairman

Franz Hochstrasser mp
Vice Chairman

Manfred Wimmer mp
Member

Bernhard Spalt mp
Member

Herbert Juranek mp
Member

Johannes Leobacher mp
Member

We want to be the leading retail bank



in the eastern part of the European Union.

Segments

INTRODUCTION

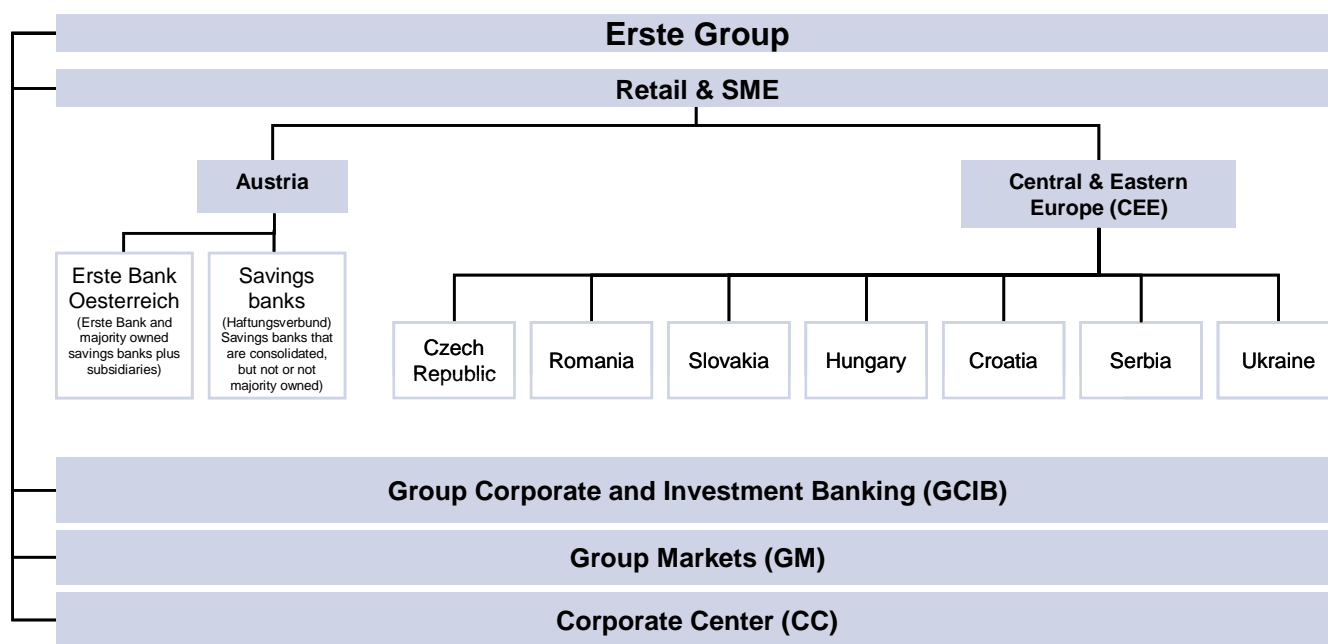
Segment reporting of Erste Group follows the IFRS presentation and measurement requirements. There are four main segments: Retail & SME, Group Corporate & Investment Banking, Group Markets and Corporate Center. The Retail & SME segment is subdivided into the individual regional businesses focusing on Erste's local customer business. To improve transparency and to be consistent with current reporting, the Austrian segment is split into the new Erste Bank Oesterreich (including local subsidiaries) and the savings banks consolidated under the cross-guarantee system In Central and Eastern Europe, all the subsidiaries continue to be reported individually.

The Group Corporate & Investment Banking segment includes all large corporate customers in Erste Group's region with a GDP-weighted turnover of more than EUR 175 million. The Group Markets segment includes divisionalised business lines like Group

Treasury and Debt Capital Markets. The Corporate Center segment contains Group services such as marketing, organisation and information technology, as well as other departments supporting the execution of group strategy. In addition consolidation items and selected non-operating items are allocated to this segment. In the new structure Group Balance Sheet Management is now allocated to the Corporate Center. The result of local asset/liability management units remains with the respective local segments.

In the new reporting structure, the segments are aligned with Erste Group's new organisational setup. This leads to a somewhat lower group contribution from the CEE subsidiaries as part of their local results are now allocated to the two holding business divisions, GCIB and GM. At the same time the new structure will help to improve transparency as the subsidiaries' results will fully reflect their core business activities and thus allow a better comparison of the regions.

Segment reporting structure at Erste Group



Retail & SME

The Retail & SME segment includes business with private individuals and small and medium-sized enterprises in Austria and Central and Eastern Europe. These regions are further subdivided into the savings banks and Erste Bank Oesterreich in Austria and the activities in the transformation economies Czech Republic, Romania, Slovakia, Hungary, Croatia, Serbia and Ukraine.

AUSTRIA

Economic review

Despite the global economic downturn, Austria weathered the storm relatively well: at 3.6% real GDP declined less than in the eurozone, while GDP per capita remained one of the highest in the world at EUR 33,100. Still, the decline in real GDP has been the worst the country experienced since 1945. This development was driven by a drop in exports while private consumption growth was a stabilising factor. As the recession in Austria's main trading partners (Germany, Italy and the EU member states in CEE) deepened, foreign trade declined sharply in the first half of 2009 followed by a pick-up in the second half of the year. The unemployment rate reflected the weakness in economic activity as it rose to 5.0% but still remained below the EU average. As a reaction to the deterioration of eco-

nomic activity in 2009, government policy measures to support the labour market dampened the decrease in employment.

Public finances deteriorated rapidly in 2009 to an estimated deficit of 4.2% of GDP. This was the result of discretionary tax cuts and an erosion of the tax base as well as higher social expenditure in the wake of the recession. In addition, Austria launched several fiscal measures to address the effects of the economic crisis on the real economy. As a result of the expansionary fiscal stance, government debt rose rapidly to an estimated 69.1% of GDP in 2009. The current account balance remained positive in 2009, but decreased to 1.9% mainly due to the fall in exports of goods and services. The foreign direct investment activity slowed down in the first half of 2009, but accelerated later in the year as the market environment improved.

The economic contraction and worldwide fall of energy prices pushed down inflation in 2009, with the average consumer price inflation reaching at 0.5%. In addition, real estate prices continued to remain stable in 2009 reflecting the low levels of home ownership as well as an affordable rental market. Due to the limited inflationary pressure and in order to reignite economic growth, the European Central Bank cut its benchmark interest rate from 2.5% to 1.0% in 2009.

Key economic indicators – Austria	2006	2007	2008	2009e
Population (ave, million)	8.3	8.3	8.3	8.4
GDP (nominal, EUR billion)	256.2	270.8	281.9	277.2
GDP/capita (in EUR thousand)	31.0	32.6	33.8	33.1
Real GDP growth	3.5	3.5	2.0	-3.6
Private consumption growth	1.8	0.8	0.8	0.4
Exports (share of GDP)	39.9	42.1	40.6	34.3
Imports (share of GDP)	39.7	40.9	39.2	35.2
Unemployment (Eurostat definition)	4.7	4.4	3.8	5.0
Consumer price inflation (ave)	1.5	2.2	3.2	0.5
Short term interest rate (3 months eop)	3.7	4.7	2.9	1.0
EUR FX rate (ave)	1.0	1.0	1.0	1.0
EUR FX rate (eop)	1.0	1.0	1.0	1.0
Current account balance (share of GDP)	2.8	3.6	3.2	2.3
General government balance (share of GDP)	-1.6	-0.5	-0.4	-4.2

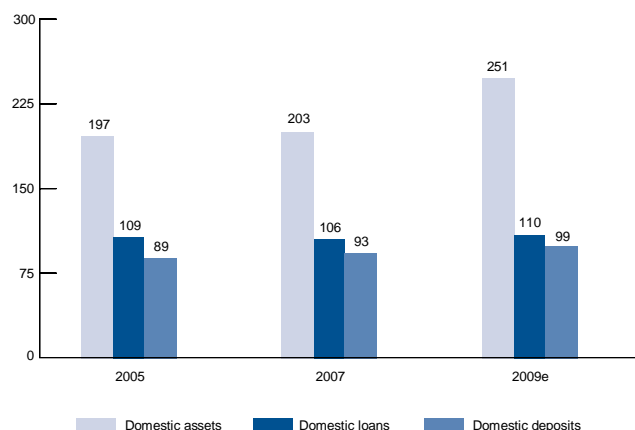
Source: Erste Group.

Market review

The Austrian domestic banking market continued to show characteristics of a developed banking market with low growth rates and high penetration figures. Total assets to GDP, the broadest measure of financial intermediation declined due to a decrease in total banking assets and despite a fall in nominal GDP. Although the financial crisis influenced the banking market in a number of ways, the impact was less severe than in case of Central and Eastern Europe. The market remained balanced with a decline in lending volumes and slowly growing deposits. While competition among banks remained strong, margins improved, albeit from low levels, due to higher

margin new business and a repricing of assets in the corporate customer segment in order to adequately reflect the deteriorating risk profile.

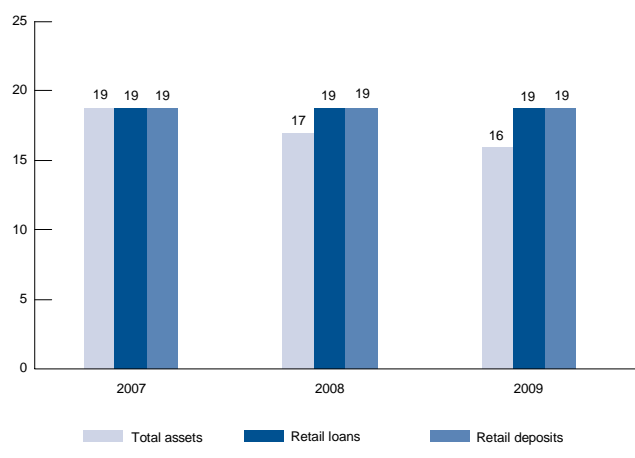
Financial intermediation – Austria (in % of GDP)



Source: Oesterreichische Nationalbank, Erste Group.

The Austrian Federal Government continued to support the banking system through a package of measures initially adopted in late 2008. These measures ranged from the injection of participation capital and government guarantees for bank bonds to unlimited deposit protection for private individuals until the end of 2009. With the improvement of the market environment, many banks were able to issue bonds without guarantees. As for raising capital, some banks managed to attract private co-investors for government-sponsored participation capital, thereby lowering funding costs. With only a few exceptions, big as well as smaller banks coped fairly well with the effects of the financial crisis.

Market shares – Austria (in %)



Source: Oesterreichische Nationalbank, Erste Group.

In this environment, Erste Bank Oesterreich and the savings banks maintained their strong market positions in 2009 and remained among the leading financial institutions in Austria. In the retail segment market shares stood at 18% to 20% depending on product category. Against the backdrop of an unstable economic and banking market environment, the stable retail deposit market share was particularly noteworthy. Based on total assets, Erste Bank Oesterreich and the savings banks achieved a market share of 16.3%.

SAVINGS BANKS

Business profile. Last year, the savings bank segment encompassed 48 Austrian savings banks with 716 branch offices consolidated because of their membership in the cross guarantee system, and in which Erste Bank Oesterreich did not hold any shares or only minor ones. Those savings banks in which Erste Bank Oesterreich held majority interests such as Salzburger Sparkasse, Tiroler Sparkasse, Sparkasse Hainburg-Bruck-Neusiedl, and since May 2009, Weinviertler Sparkasse, were allocated to the segment Erste Bank Oesterreich.

In October 2007, the new cross-guarantee system was established following the approval of the first business combinations with the savings banks by the Austrian anti-trust authority. By approving the business combination between Steiermärkische Sparkasse and Erste Bank Oesterreich, the Federal Competition Commission has approved the final application of Erste Bank Oesterreich and a savings bank to form a business combination. Today, 54 of the 55 Austrian savings banks belong to the cross-guarantee system. Allgemeine Sparkasse Oberösterreich (Linz) did not join the new cross-guarantee system, but has entered into a separate, trilateral cross-guarantee agreement with Erste Group Bank AG and Erste Bank der oesterreichischen Sparkassen AG (Erste Bank Oesterreich), which also qualifies as a business combination under cartel law. At the same time Allgemeine Sparkasse Oberösterreich (Linz) agreed to uphold the existing cross-guarantee agreement (2002) until the new agreement has been approved and is therefore also part of this segment.

Business review

Strategy. The objective of the cooperation between Erste Bank Oesterreich and the savings banks is to collaborate in key operating areas. These tasks include projects relating to statutory requirements as well as collaboration in the development of management information and control systems as well as organisational tasks and IT issues. Under the new cross-guarantee system, Erste Bank Oesterreich and the savings banks can fully exploit the benefits of their collaboration and apply these to product development, sales and a common corporate identity. The cross-guarantee system is an additional safety net for customer deposits that will remain in place even after the 100% deposit guarantee of the government expires.

Highlights in 2009

New information campaign and consulting hours throughout the savings bank sector. Under the motto “first-hand information”, Erste Bank Oesterreich und Sparkassen started a new information campaign in June 2009. It was intentionally kept plain and simple. The concise concept shifted the focus to the customers’ most pressing needs at the moment: information and good advice. Accordingly, all branches of Erste Bank Oesterreich and the savings banks offer consulting hours from Monday through Friday 7:00 hrs to 19:00 hrs. “Consulting hours” means that with an appointment advisory talks can be held outside of banking hours to provide customers with detailed information and advice regarding their financial matters.

Support for customers during the crisis. In view of the changed economic situation, Erste Bank Oesterreich and the savings banks decided to take special measures for customers and actively support them in the case of unemployment. Under the s Österreich initiative, Erste Bank Oesterreich and some of the savings banks provide people who have lost their jobs due to the economic slump with bank accounts free of charge under the heading of “Helping Hands”. These customers do not need to pay account fees for a period of 12 months.

International recognition for savings banks model. The “Centre for European Policy Studies (CEPS)” seated in Brussels and one of the most important think tanks in Europe presented a study that investigated the contributions of banks and savings institutions to economic and financial market stability. The highlights of the study are presented below:

- **The importance of savings banks in supporting regional economic development was confirmed.**
- **The savings banks are so successful because they achieve two goals: They are guided by concern for the public good and at the same time aim at profitability.**
- **Performance indicators demonstrate that the savings banks are more stable than comparable commercial banks.**
- **Through its lead institution Erste Group and its operations in Central and Eastern Europe, the Austrian savings banks and their customers have access to these markets.**

Cost reduction and sales support. Under a joint initiative, general administrative expenses of the savings banks were analysed and also benchmarked to identify the potential for reducing costs. To support sales, sales dialogues were started. The objective of these workshops was to support sales staff by giving them an opportunity to share experiences and to learn from each other.

Financial review

in EUR million	2009	2008
Pre-tax profit	-6.6	20.5
Net profit after minority interests	-3.7	-26.1
Operating result	488.0	483.6
Cost/income ratio	65.2%	65.5%
Return on equity	n.a.	n.a.
Customer loans	35,853	34,223
Customer deposits	32,502	31,805

As of the first quarter of 2009, the scope of consolidation in the cross-guarantee system widened to include Sparkasse Kufstein. Weinviertler Sparkasse was allocated to the segment Erste Bank Oesterreich as of 1 May 2009 when it was taken over by Erste Bank Oesterreich. However, this had only a minor effect on the comparability of the results.

Net interest income dropped by 4.8% or EUR 48.4 million to EUR 957.1 million. The deteriorating economic environment resulted in higher risk provisions – up by EUR 24.1 million from EUR 307.2 million in the previous year to EUR 331.3 million. More than half of the increase was attributable to higher portfolio provisions caused by rating deterioration. Net commission income rose by 3.1% from EUR 381.9 million in the previous year to EUR 393.6 million. The improvement in net trading result by EUR 34.5 million from EUR 15.8 million in the previous year to EUR 50.3 million came primarily from income on interest rate derivatives.

Operating expenses were slightly below last year’s level at EUR 913.1 million versus EUR 919.5 million. Excluding changes to the scope of consolidation, costs were down by 2.8% compared to the previous year. The decline in other result of EUR -155.9 million in the previous year to EUR -163.3 million was attributable to write-downs on securities not held in the trading portfolio. Net profit after minorities improved from EUR -26.1 million last year by EUR 22.4 million to EUR -3.7 million in 2009. The cost/income ratio was 65.2% and therefore slightly better than in the previous year (65.5%).

Credit risk

Total exposure in the savings banks/Haftungsverbund segment increased in 2009 by almost 5% from EUR 46.9 billion to EUR 49.2 billion. Customer loans rose nearly by the same proportion to EUR 35.9 billion. Growth was driven mainly by lending to corporates and municipalities. Moreover, the relatively high share of 20% in loans to professionals, self-employed and small businesses is remarkable; this reflects the structure of the Austrian economy that is characterized – in international comparison – by a high share of small and medium-sized companies. Similar to the situation at Erste Bank Oesterreich, the share of foreign currency loans declined; it was 22% at the end of 2009.

The quality of the loan portfolio hardly changed in 2009. The share of non-performing loans hardly increased, but remained at a higher level than at Erste Bank Oesterreich. As for performing loans, there was a slightly greater shift to the low-grade risk categories. The development in the individual customer segments was similar to that of Erste Bank Oesterreich: While the quality of the retail loans improved slightly contrary to the general trend, it was especially loans to larger companies that worsened. The NPL coverage improved somewhat in 2009 and was almost 55% in December 2009.

ERSTE BANK OESTERREICH

Business profile. The segment Erste Bank Oesterreich includes Erste Bank Oesterreich and the four savings banks in which Erste Bank Oesterreich holds majority stakes: these are Salzburger Sparkasse, Tiroler Sparkasse, Sparkasse Hainburg-Bruck-Neusiedl, and since May 2009, also Weinviertler Sparkasse. A further component in this segment is formed by the activities of Erste Bank in the Austrian real estate and mortgage business. These activities include retail mortgage lending, financing for state-subsidised residential and also commercial construction as well as property management and real estate brokerage. Among the most important operating entities are s Bausparkasse, which as market leader in Austria provides financing to retail customers as well as to non-profit and commercial property developers. Since 2005, s Bausparkasse furthermore has been responsible for the mortgage bonds transactions of Erste Bank. The real estate broker s REAL with its 84 offices in Austria, and s Wohnbaubank, a bank specialising in housing loans also play a key role.

Business review

Strategy. Erste Bank Oesterreich together with its own four savings banks aims to provide its customers with a one-stop-shop-solution for all financing and investment needs. The strategic focus is on enlarging its market share among young people and students and in the segment of retirement provisioning products for all target groups. In the corporate segment, Erste Bank Oesterreich's goal is to become the primary address for financial matters and establish long-term customer relations based on the spirit of partnership. In retail banking and asset management, the focus is on offering customers competitive products and services through a team of well-trained advisors; the constant improvement of such products through collaboration with product specialists and portfolio managers is also a key goal.

Highlights in 2009

Customers trust Erste Bank also in times of crisis – robust deposit business. Despite the historically low interest rates, savings deposits held by Erste Bank Oesterreich increased in the year 2009 to EUR 26.8 billion from EUR 24.1 billion. The focus of activities in 2010 will again be on the deposit business. The product Plussparen is designed to enlarge the range of products owned by customers and in this manner strengthen customer loyalty. The recovery of the capital markets is expected to boost the investment

business, with additional securities business to be generated by more frequent and intense customer consulting.

Erste Bank supports retail customers in the economic crisis.

Under the s Österreich initiative Erste Bank Oesterreich supported customers that fell on hard times due to the economic crisis or that were simply worried about the future. Under the motto "Helping Hands" the doors of Erste Bank were kept open to such persons and help was made available to support them in difficult times. Erste Bank offered retail customers free accounts during unemployment and the option of flexible loan repayments as well as events on topics such as "Dealing with the Crisis" and financial coaching. Ranging from financial planning to household budgeting as well as practical tips on how to save money and information on securing temporary aid to overcome financial bottlenecks, these information events presented concrete tips for coping with the current economic environment.

Measures for corporate customers. The bank also took a series of measures targeting corporate customers last year. Apart from providing consulting on how to better take advantage of market opportunities, measures were also taken to secure liquidity and support promising investments. The intention was to create a solid foundation for a relationship of trust between bank and customer that should last beyond the crisis. Furthermore, all small and medium-sized businesses in Vienna that had to adjust to a changed business environment or simply wanted to review their business strategies were offered free business consulting worth one workday (8 hrs). This was done in cooperation with the Chamber of Commerce of Vienna and WIFI Vienna. 75% of the costs were paid by the Chamber of Commerce Vienna, while Erste Bank covered 25% of the costs.

New organisation for public sector business. The new Public Sector Department started operations in 2009 for the purpose of better accommodating the concerns, needs, and business opportunities of this target group. The focus was on intensifying business relations with large accounts within this target group (incl. provincial governments, utilities, social insurance organisations). In 2010, the focus will be on intensifying marketing activities with the 2,350 Austrian municipalities, especially by offering attractive financing facilities and risk-adequate interest rate control instruments.

International recognition for Erste Bank Oesterreich. The international financial magazine "The Banker" awarded Erste Bank Oesterreich and the savings banks the title of "Best Bank" in Austria. The jury stated as reason that the sustainable and long-term strategy of the bank to stick to its roots as a savings bank and to concentrate on the deposit and lending business has been behind its increasingly good position in the Austrian retail segment.

Financial review

in EUR million	2009	2008
Pre-tax profit	180.0	95.2
Net profit after minority interests	129.1	81.5
Operating result	328.3	281.0
Cost/income ratio	65.4%	70.0%
Return on equity	11.4%	8.3%
Customer loans	26,137	26,300
Customer deposits	26,841	24,078

Operating profit rose by EUR 47.3 million from EUR 281.0 million in the previous year - or up 16.8% - to EUR 328.3 million. Improvements in net interest income and the sharp decline in administrative expenses contributed to this gain. The EUR 11.7 million or 1.9% rise in net interest income from EUR 625.8 million in the previous year to EUR 637.5 million resulted mainly from the SME business division that contributed higher lending volumes as well as better margins. Additionally, higher customer deposits in retail banking had a positive influence on net interest income. Net commission income grew from EUR 292.4 million in the previous year by EUR 10.4 million or 3.6% to EUR 302.8 million. This was mainly due to the income from insurance business and other services. The trading result deteriorated by EUR 7.4 million, from EUR 16.8 million to EUR 9.4 million – a decrease of 44.2%.

Operating expenses decreased further from EUR 654.1 million in the previous year by EUR 32.7 million or 5.0% to EUR 621.4 million. The cost/income ratio improved to 65.4%, following 70.0% in 2008. The increase by EUR 50.5 million or 50.0% in risk provisions from EUR 100.9 million last year to EUR 151.4 million in 2009 was driven mainly by the corporate business. The item other result, which was impacted by write-downs in the fair value portfolio in 2009 – improved especially due to valuation gains of securities not held in the trading portfolio by EUR 88.0 million from EUR -84.8 million to EUR 3.2 million. Net profit after minorities improved by EUR 47.6 million from EUR 81.5 million to EUR 129.1 million despite the difficult market situation of the past few months. Return-on-equity rose from 8.3% last year to 11.4%.

Credit risk

Total exposure in the Erste Bank Oesterreich segment remained almost unchanged in 2009 at around EUR 35.2 billion, while customer loans decreased slightly from EUR 26.3 billion to EUR 26.1 billion. The share of Erste Bank Oesterreich segment in the total loan portfolio of the Group was 20.2% in December 2009, and therefore, 0.6 percentage points lower than in 2008. The breakdown by customer group also remained nearly unchanged. Loans to retail customers and loans to other segments were more or less equal. The share of loans to professionals, self-employed and small businesses was much smaller at 10% than at the savings banks.

Ever since the granting of foreign currency loans to retail customers was discontinued towards the end of 2008, their share has been gradually decreasing: at the end of 2009, it was 15%. The negative

trend in credit quality was confronted by requiring additional collateral.

Unlike many markets in Central and Eastern Europe, the credit portfolio of Erste Bank Oesterreich worsened only slightly in 2009. The share of non-performing loans to total customer loans increased from 4.4% to 4.7%, and within the two best risk categories, there was a slight shift towards the poorer risk classes. The slightly weaker quality of the credit portfolio was due exclusively to corporate customers; the retail portfolio even improved slightly. Also noteworthy is the tenacity that small and medium-sized businesses have shown in withstanding the economic crisis up to now; the credit quality in this subportfolio did not deteriorate in 2009 quite unlike the situation in Central and Eastern Europe.

CZECH REPUBLIC

Business profile. The Czech Republic segment includes the retail and SME business of Česká spořitelna and its subsidiary operations. Česká spořitelna is the leading retail bank in the country and the largest among Erste Group's operations in CEE. It serves some 5.3 million retail, SME and large corporate clients; it operates a network of 660 branches and 1,218 ATMs. Česká spořitelna issued more than 3.3 million bank cards, including almost half a million credit cards. The bank's building society, pension fund and factoring subsidiaries also occupy leading positions in their respective fields.

Economic review

Despite a decline in output in 2009, the strong fundamentals of the Czech economy have helped the country to weather the global economic downturn well. While exports declined by a substantial 4.2% in nominal terms, real GDP fell by an estimated 4.3% in 2009. GDP per capita remained one of the highest in the CEE region at EUR 13,400 in 2009. In addition to trade, tighter credit conditions, slowing wage growth, and declining foreign investments amplified the economic contraction. In response to the crisis, the Czech government adopted two stimulus packages, altogether amounting to 2% of GDP. The main measures included cuts in social security contributions, further increases in public infrastructure spending, and financial assistance to businesses as well as measures to support employment. Despite the latter, however, the unemployment rate grew significantly to an average of 8.2% over the past year and has remained one of the main challenges of the Czech economy.

Public finances worsened in 2009 with the government deficit widening to 4.5% of GDP, mainly as a result of the economic downturn. On the one hand cuts in social security contributions and a reduction in the corporate income tax rate from 21% to 19% contributed to the fall in the revenue-to-GDP ratio; on the other hand, the expenditure-to-GDP increased on the back of higher social transfers and public investments. The contraction in GDP combined with the relatively high deficit drove up government debt to 31.4% of GDP.

Driven by lower oil- and food prices, the general slowdown of the economy, and the lag effect of the strong currency in 2008 inflation remained under control in 2009. Average consumer price inflation stood at 1.1%. After declining in early 2009, the Czech Crown recovered to 25.8 against the euro at the end of the year. On the back of these developments, the Czech National Bank continuously

cut the interest rate which reached a historic low of 1.0% by the end of 2009. Importantly, although the Czech Republic is expected to meet all Maastricht criteria in time to adopt the euro by 2012, the adoption date remains uncertain for political reasons.

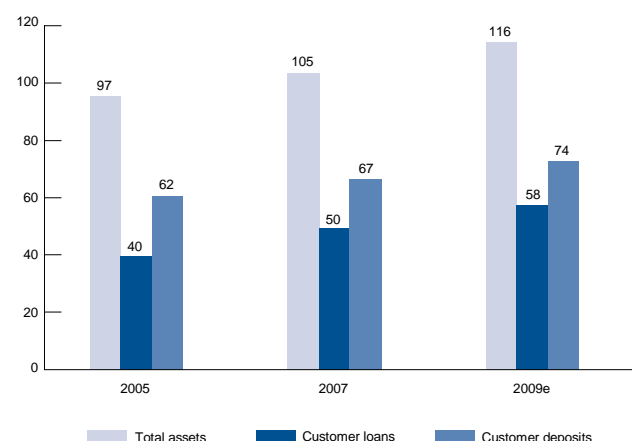
Key economic indicators – Czech Republic	2006	2007	2008	2009e
Population (ave, million)	10.3	10.3	10.3	10.3
GDP (nominal, EUR billion)	113.8	127.5	147.7	138.0
GDP/capita (in EUR thousand)	11.1	12.4	14.4	13.4
Real GDP growth	7.0	6.1	2.3	-4.3
Private consumption growth	5.1	4.9	3.5	1.6
Exports (share of GDP)	66.6	70.2	67.6	65.6
Imports (share of GDP)	64.6	66.8	64.5	58.1
Unemployment (Eurostat definition)	8.1	6.6	5.4	8.2
Consumer price inflation (ave)	2.5	2.8	6.4	1.1
Short term interest rate (3 months eop)	2.6	4.1	3.6	1.8
EUR FX rate (ave)	28.3	27.8	25.0	26.4
EUR FX rate (eop)	28.0	26.5	26.9	25.8
Current account balance (share of GDP)	-2.4	-3.2	-3.1	-1.4
General government balance (share of GDP)	-2.9	-1.9	-0.5	-4.5

Source: Erste Group.

Market review

In 2009 the Czech banking market continued to benefit from a favourable balance between loans and deposits and accordingly coped well with the economic downturn. While growth rates slowed down substantially across the entire product spectrum, the rise in financial intermediation metrics was exaggerated by a decline in nominal GDP. FX-lending, which played an important role in countries with higher interest rates, remained insignificant and only related to corporate customers with FX deposits and/or revenues. Despite the lower lending activity coupled with a higher portion of defaulted loans, the country's banking sector continued to be highly profitable. The health of the banking sector was also reflected in the limited exposure to toxic or subprime assets. Accordingly and in contrast to many Western economies, no state support measures were needed in the Czech Republic.

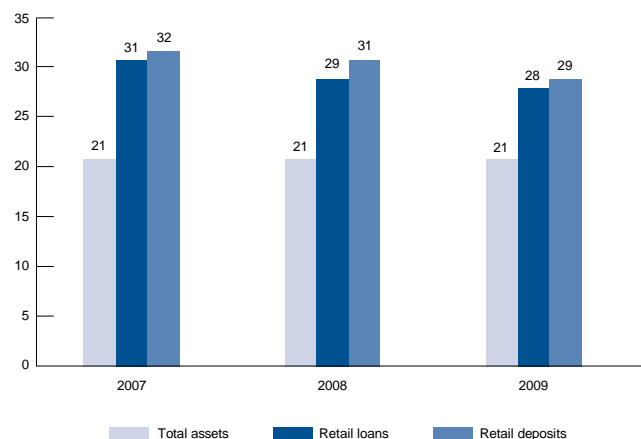
Financial intermediation – Czech Republic (in % of GDP)



Source: Czech National Bank, Erste Group.

Česká spořitelna maintained its strong market position in 2009 and remained the largest retail bank in the Czech Republic. The bank continued to benefit from a conservative retail business model that is built on sustainable deposit funding and solid risk management. At the end of 2009, Česká spořitelna owned about one-third of the market in housing loans as well as retail deposits. Based on total assets, the bank ranked second with a market share of 20.7%.

Market shares – Czech Republic (in %)



Source: Czech National Bank, Erste Group.

Business review

Strategy. Česká spořitelna's strategy is built on its strength in retail banking. This provides a solid foundation to mitigate risks in economically more challenging times. Accordingly, the bank aims to defend its current retail market position, especially in the competitive deposit market. In the corporate segment Česká spořitelna wants to take advantage of the more difficult economic environment and deepen the relationship to key customers. In the field of asset management the bank aims to regain the leading position in the mutual funds market and restore trust in investment products after the market turmoil in 2008-09.

Highlights in 2009

New deposit products support continued growth. In response to growing client demand for deposit products with a guaranteed yield Česká spořitelna introduced a number of new products in 2009. The *Savings and Investment Programme* provides clients with comprehensive consultancy regarding all aspects of long-term wealth creation: creating a financial reserve, maintaining the client's standard of living in the future and ensuring optimum security for the client and his/her family. The Programme also benefits from government contributions. In addition, CS launched other savings products, such as the *Clever Savings Plan* for regular saving, and the *Perfect Deposit* that offers clients a 3.2% annual yield for a 48 month term deposit with the added bonus that the first half of the yield is paid out when the product is established. The *Golden Deposit* term product introduced in 2008 also attracted new customers. Overall, deposits of private individuals rose by 2.0% in 2009.

Continuing loan growth, but at slowing pace. Loan growth slowed down in 2009, mainly as a result of a 9% increase in consumer loans and a flat development in housing loans. The latter was mainly due to the economic slowdown and decreasing activity in the real estate market. Despite these factors, Česká spořitelna maintained its leading position in the mortgage market. In line with the unfavourable economic conditions, the sale of loan insurance poli-

cies, e.g. to cover repayment in the case of unemployment, rose significantly. Overall, the bank's loan-to-deposit ratio remained at about 70%.

Offer of flexible products enlarged. Based on a success of *Personal Account* and *Cool Card* that allow clients to assemble products and services according to their individual needs and requirements, Česká spořitelna introduced a *Student Personal Account*. Both versions of the personal account have attracted more than 1.7 million clients by the end of 2009, translating into an annual growth rate of 59%. At the same time the deposit volume attracted by those products rose by 54%. In addition, Česká spořitelna launched a loyalty scheme – the *Advantage Programme* – as part of the *Personal Account*, in order to reward active customers by offering discounts on products and services.

No. 1 in electronic banking. In the area of electronic banking Česká spořitelna maintained its leadership position: the number of active private individual users of its direct banking (via internet or phone) facility *SERVIS 24* exceeded 1 million clients. Česká spořitelna thus kept its No. 1 position in terms of electronic banking clients. Together with *BUSINESS 24*'s corporate clients the total number of users reached 1.25 million. The total number of transactions carried out through *SERVIS 24* and *BUSINESS 24* grew by 6% in 2009. The number of active payment cards reached 3.3 million of which credit cards represented roughly half a million. The volume of card transactions executed in electronic payment terminals of Česká spořitelna increased significantly by 38% to CZK 75.2 billion or about EUR 2.8 billion.

International and local recognition. As in previous years Česká spořitelna was awarded a number of local and international awards in 2009. In the local Fincentrum Bank of the Year survey, Česká spořitelna defended the title "The Most Trustworthy Bank in the Czech Republic" for the sixth consecutive time and was named "The Bank of the Year 2009". A number of products, such as the *Ideal Mortgage* were also recognised. Among international awards, Česká spořitelna won The Banker magazine's "The Bank of the Year in the Czech Republic" award and "The Best Bank in the Czech Republic" title as part of the prestigious 2009 Euromoney Awards for Excellence.

Financial review

in EUR million	2009	2008
Pre-tax profit	459.9	439.9
Net profit after minority interests	347.4	349.8
Operating result	855.3	789.1
Cost/income ratio	44.9%	48.6%
Return on equity	34.4%	43.3%
Customer loans	16,721	16,100
Customer deposits	22,415	21,977

Net interest income of the Czech retail and SME business decreased by EUR 25.1 million or 2.3% from EUR 1,108.1 million in the previous year to EUR 1,083.0 million. However, currency-adjusted

this line item increased by 2.9%, driven by the sustained inflow of savings deposits and selective growth in the lending business. Net interest income was negatively influenced by decreasing market interest rates (2-week reference interest rate), which in comparison to the previous year's 3.75% declined to only 1%. Net commission income rose from EUR 424.9 million by 1.1% to EUR 429.5 million this year. The currency-adjusted increase equalled 6.5% mainly due to higher lending volumes. Operating expenses were down by 1.8% due to cost-cutting measures. The improved net trading result (EUR 38.6 million after EUR 2.6 million in the previous year) was achieved on the back of stronger foreign exchange business.

The operating result rose by EUR 66.2 million or 8.4% from EUR 789.1 million in the previous year to EUR 855.3 million; currency-adjusted, the operating result was up by 14.1%. The considerable increase in risk provisions of EUR 156.2 million from EUR 131.9 million in 2008 to EUR 288.1 million reflected higher provisioning requirements – especially in the SME and retail areas – caused by the economic downturn. The item other result improved by EUR 109.9 million from EUR -217.2 million in the previous year to EUR -107.3 million. This corresponded to a currency-adjusted increase of 48.0%, which was driven by the negative result of the previous year, when substantial revaluations of the securities portfolio were required in the third and fourth quarters. This year, the result in this item was burdened by the revaluations required for real estate investments. Net profit after minorities was EUR 347.4 million which was 0.7% lower than in the previous year (EUR 349.8 million). Currency-adjusted, this corresponded to an improvement of 4.6%. The cost/income ratio was 44.9% (48.6% in 2008), while return-on-equity was 34.4% (previous year: 43.3%).

Credit risk

Total exposure in the Czech Republic segment as of year-end 2009 was EUR 26.6 billion and was slightly down compared to the EUR 27.4 billion one year earlier. In contrast to total exposure, loans to customers rose slightly to EUR 16.7 billion by year-end 2009. While loans to households declined year-on-year from EUR 5.3 billion to EUR 5.1 billion, loans to corporate customers and municipalities increased. At a share of almost 13% of Erste Group's total customer loans, the Czech Republic is the second-most important market for Erste Group after Austria.

In the Czech Republic, loans were granted almost exclusively in local currency; the share of foreign currency loans at the end of the financial year was 3.5%. In some areas, lending criteria were tightened especially for commercial real estate as well as for new loans to small and medium-sized businesses.

Compared to other countries in Central and Eastern Europe, the recession in the Czech Republic was not as severe. This development and effective credit risk management contained the deterioration of the loan portfolio. This was particularly true for private consumer and mortgage loans, while the quality of corporate loans, especially in the last quarter of the year, worsened significantly. The share of non-performing loans in the total credit portfolio was 4.6%

at the end of 2009 and thus around 1.6 percentage points higher than in 2008. The NPL coverage in relation to customer loans of 66.2% hardly changed over the previous year.

ROMANIA

Business profile. The Romania segment includes the retail and SME business of Banca Comercială Română (BCR) and its subsidiaries. With total assets of EUR 16.4 billion and 4.7 million customers as at year-end 2009 BCR is the clear leader in the Romanian banking market. It offers the complete set of retail and corporate banking services through a network of 661 branches and 48 commercial centres as well as internet and phone banking. In addition, it operates the largest national network of ATMs and POSs – more than 2,000 and approximately 16,500 units, respectively. BCR is also top-ranked in leasing and well-positioned in the pension markets and brokerage business.

Economic review

After several years of exceptional real GDP growth, Romania plunged into recession in 2009 on the back of the global economic downturn. Real GDP contracted by 7.1% while GDP per capita stood at EUR 5,400. The main driver behind this development was the decline in domestic demand. The slow-down of the economy had a corresponding negative effect on employment, with the average unemployment rate increasing to 7.1%. In addition, Romania was affected by negative market sentiment, which weighed heavily on the local currency. In this situation, the authorities decided to seek external financial support. The EU, the IMF, the World Bank, the EIB and the EBRD responded by making available medium-term financial assistance of up to EUR 20 billion. This assistance was tied to the implementation of a comprehensive economic policy programme, comprising fiscal consolidation and reform measures in the area of fiscal governance, structural reform and tighter financial sector supervision. The adoption of the policy programme has contributed to an improvement in market sentiment and had a positive impact on the Romanian economy and currency, especially in the second half of the year.

The country's budget deficit remained within the limit agreed with the IMF and stood at 7.4% in 2009, with public debt almost doubling to 21.7% of GDP. Compared to West European public debt levels, however, this is still a moderate figure. The current account deficit narrowed to 4.4% of GDP, in line with the economic contraction and reflected mainly the sharp decline in import volumes. Importantly, foreign direct investments remained high, almost fully covering the current account deficit.

As wage pressure eased and aggregate demand contracted, average consumer price inflation remained on a downward trend: it stood at 5.6% in 2009. This was also helped by the performance of the Romanian leu which remained in the range of 4.1-4.3 versus the euro despite political tensions in the second half of the year and after being under pressure at the start of the year. The stable currency allowed the Romanian National Bank to cut the benchmark interest

rates five times to 8.0% in 2009. Importantly, presidential elections were held in December restoring political stability in the country

and creating favourable conditions for pushing forward reforms in the public sector.

Key economic indicators – Romania	2006	2007	2008	2009e
Population (ave, million)	21.6	21.5	21.5	21.5
GDP (nominal, EUR billion)	97.8	123.8	139.7	115.9
GDP/capita (in EUR thousand)	4.5	5.7	6.5	5.4
Real GDP growth	7.9	6.2	7.1	-7.1
Private consumption growth	11.6	9.8	8.4	-8.2
Exports (share of GDP)	26.4	23.9	24.1	25.1
Imports (share of GDP)	41.7	41.5	40.8	33.5
Unemployment (Eurostat definition)	7.3	6.4	5.8	7.1
Consumer price inflation (ave)	6.6	4.8	7.9	5.6
Short term interest rate (3 months eop)	8.6	8.4	15.5	10.7
EUR FX rate (ave)	3.5	3.3	3.7	4.2
EUR FX rate (eop)	3.4	3.6	4.0	4.2
Current account balance (share of GDP)	-10.4	-13.5	-11.6	-4.4
General government balance (share of GDP)	-1.5	-2.3	-4.8	-7.4

Source: Erste Group.

Market review

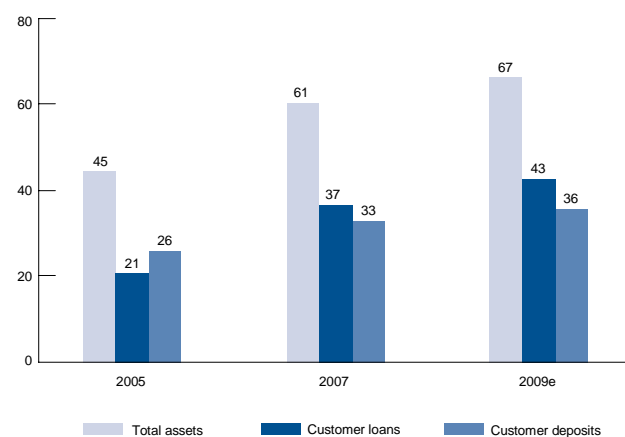
The Romanian banking market was heavily impacted by the financial crisis. After years of strong, double-digit growth, the market has almost come to a halt in 2009. While the volume of local currency loans has even declined during the year, the currency-adjusted FX loan volume advanced only slightly. In conjunction with declining nominal GDP, this led to an increase in penetration rates. The highest growth rates were recorded in corporate loans and retail housing loans. Despite this the latter accounted for only 5% of GDP. In this segment EUR-based lending remained significant due to the high local interest rates. In order to stimulate lending and support the real estate market the government introduced the so called “Prima Casa” programme under which euro-based housing loans benefit from state guarantees of up to EUR 60,000; by the end of 2009 a volume of about EUR 500 million in loans were approved.

The deposit market continued to be driven by the retail segment. Local currency deposits remained dominant as well as fully-covered local currency loans while FX deposits – partly driven by remittances transferred from Romanians working abroad – remained a key local funding source for FX loans. In line with the economic development corporate deposit volume decreased in 2009. Overall, the banking sector remained well capitalised while liquidity positions improved during the year.

In 2009 BCR maintained its leading position in the Romanian market with a total asset market share of 19%. In terms of customer loans, BCR expanded its market share, mainly as a result of strong advances in the corporate segment, while posting a slight decline in the retail segment. The improvement in the corporate segment was mainly due to successful campaigns, which led to the acquisition of new accounts and to the broadening of existing relationships. A similar development took place on the deposit side: while BCR lost

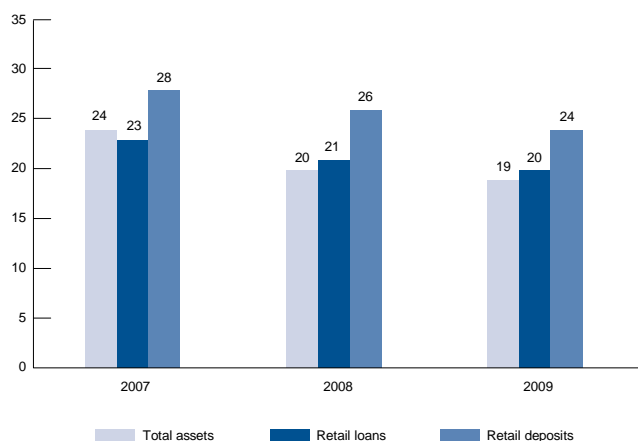
some of its market share in the retail segment, the corporate deposit share improved year-on-year as a result of additional business in the large corporate and municipality units.

Financial intermediation – Romania (in % of GDP)



Source: National Bank of Romania, Erste Group.

Market shares – Romania (in %)



Source: National Bank of Romania, Erste Group.

Business review

Strategy. BCR's strategy is to maintain its leading market position by further improving its sales channels as well as back office processes, and by continuing to put customer needs at the forefront of all activities. The main goal is to further increase customer loyalty and hence long-term profitability, while at the same time adhering to strict lending standards and offering high quality savings and investment products.

Highlights in 2009

Improved service quality. As part of its service quality initiative, BCR took further measures to streamline the internal credit assessment processes and to shorten the time to approval in both retail and corporate lending. The advisory capabilities of front office staff were also improved in order to increase the number of long-term customer relationships and strengthen the bank's market leadership. Other initiatives related to the simplification of documentary procedures and the implementation of a new complaint management concept aiming to increase customer satisfaction by improving the response times for all customer requests. In addition, BCR's capacity to maximise the sales force potential by increasing the product knowledge was strengthened by a training and development plan.

Focus on customer insight and risk management. In 2009 BCR took a number of measures in order to better understand the customer and improve the management of customer relationships. In this respect, the bank developed customer segment-based service models that feature specific product offerings and adequate pricing. Moreover, BCR laid the groundwork for introducing a new sales force and customer care concepts at the branch level, implementing a single point of contact model for mass affluent retail customers. Furthermore, important progress has been made in implementing a scoring system based on customer behaviour and developing risk-adjusted pricing for lending products. These measures should contribute to better risk management and customer service, enhanced knowledge about the customer, and ultimately improve asset quality.

Enhanced distribution with focus on alternative channels.

Given that cash transactions are still predominant in the market, BCR continued to take specific measures to encourage the shift in customer behaviour to non-cash transactions. Therefore, BCR has been focusing on developing, promoting and selling electronic banking solutions and cash management products, and on improving card usage. At the same time, BCR continued to ensure good proximity to the customer by expanding its branch network. Furthermore, BCR implemented new functionalities for internet banking and cash machines.

Improved efficiency. BCR made significant efforts in order to reduce operating costs and streamline processes. Measures included the reorganisation of cash management processes, the streamlining of internal regulations by reducing their number and optimising the document workflow. Additional efforts were made in the IT area in order to minimise the time to market and increase business flexibility. As a result of the measures the cost/income ratio declined to a record level of well below 40%.

Financial review

in EUR million	2009	2008
Pre-tax profit	129.4	439.8
Net profit after minority interests	73.5	240.1
Operating result	644.9	555.6
Cost/income ratio	37.3%	45.2%
Return on equity	13.4%	53.4%
Customer loans	11,190	10,920
Customer deposits	7,297	7,303

An improved net interest margin led to an increase in net interest income at Banca Comercială Română, from EUR 749.5 million in the previous year to EUR 836.8 million in 2009 (+11.7%, currency-adjusted: +28.2%). The decline in the net trading result (down by EUR 0.8 million from EUR 27.4 million to EUR 26.6 million) was largely a reflection of the negative valuation effects from the depreciation of the RON, especially in the first and second quarters of 2009. Net commission income dropped by EUR 71.5 million or 30.3% (currency-adjusted: -19.9%) from EUR 236.3 million last year to EUR 164.8 million. This substantial decline was caused by lower new loan volumes and weaker payment transaction business. Increased expenses due to the expansion of the branch network (year-on-year +20 new branches) and investments into the development of the card business and alternative distribution channels were offset by lower personnel expenses resulting in operating expenses of EUR 383.3 million, which were much lower than the corresponding figure for 2008 of EUR 457.6 million (-16.2%, currency-adjusted: -3.8%).

The solid operating result of EUR 644.9 million following EUR 555.6 million in the previous year – currency-adjusted this was an increase of 33.3 % – was contrasted by a significant rise in risk provisions – especially for the retail portfolio – from EUR 129.0 million in 2008 by EUR 403.4 million to EUR 532.4 million. The need for higher risk provisions arose due to general market developments (financial crisis, higher unemployment, depreciation of RON vs. EUR).

The item other result rose by EUR 3.8 million from EUR 13.2 million to EUR 17.0 million. Net profit after minorities declined by EUR 166.6 million (-69.4% or currency-adjusted -64.8%) from EUR 240.1 million in the previous year to EUR 73.5 million. The cost/income ratio improved from 45.2% in 2008 to 37.3%, while return-on-equity was 13.4%.

Credit risk

The total exposure in the business segment Romania was EUR 14.3 billion at year-end 2009 (end of 2008: EUR 13.2 billion). Loans to customers rose by 2.5% to EUR 11.2 billion, which is a share of 8.7% in the total volume of customer loans of Erste Group. This slight expansion – compared to the previous years – was due primarily to the overall economic conditions. While loans to retail customers were slightly higher, loans to corporate customers stagnated.

The share of foreign currency loans changed only slightly, and accounted for some 56% of the total portfolio at year-end; the share of unsecured consumer loans decreased. In the course of 2009, more stringent lending criteria were introduced for new loans. Furthermore, measures to avoid defaults were intensified, with greater importance being attached to credit restructuring to adjust to the worsened economic situation both for private households as well as corporate customers.

The recession caused a steep decline in credit quality. The share of the two best risk categories to total exposure decreased from 82.6% to 71.5%. The share of non-performing loans to total customer loans went up in 2009 from 4.6% to 13.1%, with loans to corporates having a slightly better quality than loans to retail customers. The development among the self-employed and small businesses was especially negative, but – at around 7% - the share of this segment of the total loan portfolio was very small. As risk provisions were significantly increased with a net allocation of EUR 301 million, there were still enough reserves for credit losses. The coverage ratio for non-performing loans rose again in the second half-year, and by year-end, it reached almost 57%.

SLOVAKIA

Business profile. The Slovakia segment encompasses the retail & SME business of Slovenská sporiteľňa (SLSP) and its subsidiaries. Slovenská sporiteľňa is the long standing retail market leader and the second largest player in the corporate segment. It serves some 2.5 million clients, or about half of the Slovak population, through a network of 279 branches and more than 660 ATMs. Slovenská sporiteľňa also occupies leadership positions in asset management, leasing and factoring. The bank focuses on offering simple and transparent products for mass market clients, by capitalising on its key strengths: the country-wide distribution network and its traditionally high trustworthiness.

Economic review

Overall sound macroeconomic and structural policies coupled with strong GDP growth rates between 2003 and 2008 enabled Slovakia to adopt the euro in January 2009. This helped to shield the country from potential exchange rate pressure and supported confidence during the global economic downturn. Nonetheless, the country's small and very open economy contracted by 4.7% in 2009. The decline erased most of the 6.2% real GDP growth seen in 2008; GDP per capita amounted to EUR 11,700 in 2009. Importantly, however, after a sharp downturn in the beginning of 2009 the economy started to recover later in the year. Industrial production, boosted by improving foreign demand, recovered almost 20% from its bottom. The unemployment rate continuously increased in 2009 reaching a level 11.9%.

The policy response of the Slovak government to the crisis has aimed to contain the economic downturn by supporting domestic demand in order to partly offset the slump in external demand. Authorities adopted fiscal policy measures in November 2008 and February 2009, which amounted to roughly 0.5% of GDP for 2009. Importantly, these measures were mainly financed through a reallocation of resources within the budget and therefore did not have a material negative impact on public accounts; in relation to GDP, of course, the budget deficit rose. Overall, government debt rose to 35.4% of GDP in 2009. The measures were targeted at specific sectors of the economy (car-scrapping scheme), disadvantaged groups (increase in tax credit for low earners) and at supporting employment (contributions for retention of employment). Despite decreased demand for cars, imports lagged the recovery in exports, putting the trade balance into surplus. Equally, the current account deficit also contracted to 2.5% of GDP.

In line with the global disinflation trend, Slovak inflation reached historic lows in the autumn of 2009; for the full year, consumer price inflation stood at 1.6%. As a result of this and thanks to the adoption of the euro, Slovakia benefited from low eurozone interest rates of 1.0%.

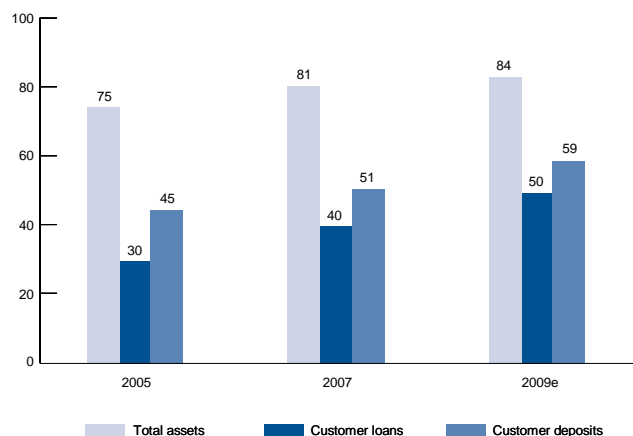
Key economic indicators – Slovakia	2006	2007	2008	2009e
Population (ave, million)	5.4	5.4	5.4	5.4
GDP (nominal, EUR billion)	44.5	54.8	64.8	63.3
GDP/capita (in EUR thousand)	8.3	10.2	12.0	11.7
Real GDP growth	8.5	10.6	6.2	-4.7
Private consumption growth	5.9	7.1	6.1	-0.4
Exports (share of GDP)	74.3	76.7	73.6	62.7
Imports (share of GDP)	78.8	77.8	74.6	60.7
Unemployment (Eurostat definition)	13.3	11.0	9.6	11.9
Consumer price inflation (ave)	4.5	2.8	4.6	1.6
Short term interest rate (3 months eop)	4.7	4.3	3.0	0.7
EUR FX rate (ave)	1.2	1.1	1.0	1.0
EUR FX rate (eop)	1.1	1.1	1.0	1.0
Current account balance (share of GDP)	-7.2	-5.3	-6.5	-2.5
General government balance (share of GDP)	-3.5	-1.9	-2.2	-6.0

Source: Erste Group.

Market review

Despite the economic downturn, the Slovak banking market remained one of the most balanced in the CEE region with a loan-to-deposit ratio of well below 100%. Slowing growth rates and a manageable deterioration in asset quality were the only noticeable crisis effects in 2009. Within the retail loan market housing loans grew the fastest, followed by consumer loans; overall, retail loan growth rate amounted to 10.4% in 2009. Corporate loan demand took a hit in 2009. Even though FX loans never played a significant role in Slovakia, the small portion of corporate FX loans that did exist disappeared as a result of the euro introduction.

Financial intermediation – Slovakia (in % of GDP)



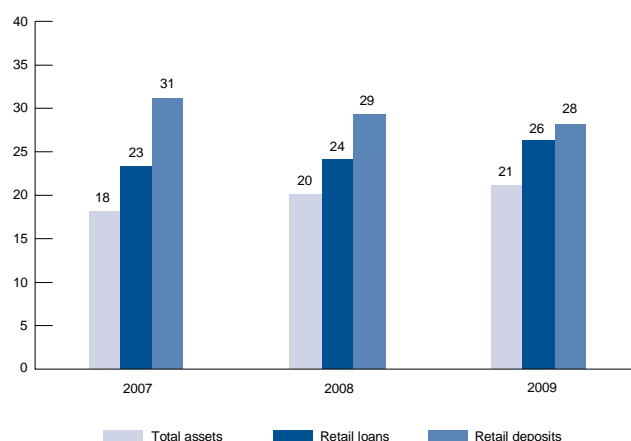
Source: National Bank of Slovakia, Erste Group.

The deposit market declined over the course of the year, mainly as a result of the euro introduction which led to high deposit inflows towards the end of 2008. The decline was least pronounced in the retail segment, while the decrease in corporate deposits was more significant due to the difficult economic situation. The broadest measure of banking market penetration, total assets as a percentage

of GDP declined in 2009, as interbank assets within the banking system reverted to historic lows.

Slovenská sporiteľňa comfortably maintained its leadership position in the Slovak banking market in 2009. While the retail loan market share improved on the back of proactive marketing campaigns, the retail deposit market share slipped slightly as the bank did not participate in the fight for unprofitable deposits. In the corporate segment, the trends were opposite. While the bank strongly expanded its deposit share, the corporate loan market share remained unchanged. Overall, Slovenská sporiteľňa's total asset market share improved to 21.4% after 19.7% in the previous year.

Market shares – Slovakia (in %)



Source: National Bank of Slovakia, Erste Group.

Business review

Strategy. Slovenská sporiteľňa aims to defend its leading market position in retail and SME banking, building on its unique strength in retail funding, on its trustworthiness, on its strong customer base and its distribution network. It is also committed to improve the customer experience by offering flexible and transparent products and its operational performance by raising efficiency. An additional competitive advantage is accessibility, created by the broadest network of branches and ATMs. SLSP will focus on maintaining this advantage, by gradually adding sales points in localities where it is underrepresented.

Highlights in 2009

Simplification of business. SLSP streamlined its organisational structure and reduced the number of management layers both in the branch network and head-office in order to simplify the operating model and increase customer focus. It introduced stricter cost management in all key areas, including personnel, IT and property management. Costs that are fundamental to future performance were not affected by these cuts. SLSP also simplified the product portfolio and related processes in order to increase efficiency and improve the customer experience. All of the above resulted in a significant reduction in operating costs in the business year under review.

Enhanced product portfolio. Maintaining long-term relationships with its customers is important to SLSP. Accordingly, the bank aims to offer price competitive and relevant products. To this effect, SLSP launched various new products, such as a new flat fee personal account, offering all key services for single price. While the product is also available to existing customers, it will mainly be targeted at new clients and provide a base for building long-term active relationships with those customers.

Rising loan volumes, declining deposits. In line with the general economic environment, loan growth slowed down considerably in 2009. This was mainly a result of strongly growing retail loans and a decline in corporate loan volumes. Deposits declined across the board, mainly due to an extraordinary rise in deposits ahead of the euro introduction a year ago. Due to its prudent pricing policies SLSP kept margins stable in 2009: on the one hand the bank did not compete for unprofitable deposits in the run-up to the euro change-over; on the other, it continued lending at stricter terms and at better spreads than in the past.

Financial review

in EUR million	2009	2008
Pre-tax profit	42.4	100.4
Net profit after minority interests	27.6	82.7
Operating result	249.1	221.9
Cost/income ratio	50.0%	52.7%
Return on equity	6.0%	27.5%
Customer loans	5,670	5,241
Customer deposits	7,145	7,599

At EUR 385.9 million, net interest income in the Slovak retail and SME business was EUR 45.5 million higher (+13.3%) than in the previous year (currency-adjusted: +9.0%). The main factors behind this development were – despite several interest rate cuts triggered by the introduction of the euro and developments on financial markets – the expansion in the lending and deposit business in the retail segment. Net commission income was EUR 104.6 million (-3.6% or currency-adjusted -7.2%) after EUR 108.4 million last year. This decline was – as expected – due to the lower commissions in foreign exchange and securities business. This was due primarily to the ban on charging fees for cash transactions in the course of the euro introduction that applied until 31 August 2009. The reason for the lower net trading result, which was down by EUR 11.9 million from EUR 20.2 million in 2008 to EUR 8.3 million, was the lack of foreign exchange business after the introduction of the euro. Risk provisions reflected the weaker market situation compared to 2008 and amounted to EUR 156.5 million, which was EUR 69.5 million higher than EUR 87.0 million in the previous year.

Operating expenses increased by EUR 2.4 million or 1% from EUR 247.2 million to EUR 249.6 million. On a currency-adjusted basis operating expenses declined by 2.9%, with the increase in IT expenses being compensated by lower personnel expenses. The decrease in other result by EUR 15.8 million from EUR -34.5 million in the previous year to EUR -50.3 million was due primarily to revaluations in the available-for-sale portfolio as well as litigation costs. Net profit after minorities was EUR 27.6 million (-66.6% vs. 2008) and return-on-equity 6.0%. The cost/income ratio reached 50.0% after 52.7% in the previous year.

Credit risk

Total exposure in the business segment Slovakia was EUR 8.5 billion at year-end 2009, up nearly EUR 1.3 billion compared to the end of 2008. Loans to customers rose by 8.2% to EUR 5.7 billion or 4.4% of Erste Group's total customer loan volume. The increase was mainly attributable to growth in retail loans, while loans to medium-sized and larger companies declined.

The loan portfolio consisted almost completely of local currency (euro) loans; there were still no foreign currency loans to private individuals. The collateral ratio was higher than in the past for newly granted loans in 2009. Considering the substantial deterioration in asset quality in certain subportfolios, the granting of new loans to certain sectors was discontinued. For customers with temporary payment difficulties, an increasing number of restructuring measures were carried out.

Overall, the worsening of credit quality was limited. While defaults on corporate loans went up in 2009 from 3.2% to 8.4%, the share of non-performing loans in the retail business rose from 6.0% to 6.2% and was lower than the country average. As in many countries of Central and Eastern Europe, the worsening of credit quality was significantly higher among small businesses. Migration within performing loans was also only minor: The share of the two best risk categories of total loans decreased by only 2.6 percentage

points to 88%. Provisions for loans rose from EUR 222 million to EUR 310 million and covered 73% of non-performing loans at year-end.

HUNGARY

Business profile. The Hungary segment comprises the retail and SME business of Erste Bank Hungary and its subsidiaries. Erste Bank Hungary is a considerable player in the Hungarian banking market: in terms of customers it occupies the No. 2 spot with 870,000 clients; it was also second in retail lending, with a market share of 13.3%. At a total asset market share of 8.6% Erste Bank Hungary ranks fifth in the market. The network coverage remains virtually unchanged at more than 200 branches nationwide, 27 commercial centres for SME clients, in excess of 400 ATMs and 343 online-post offices. In addition, Erste Bank Hungary maintains strong positions in the brokerage business and in leasing.

Economic review

Hungary's economy had already stagnated for two years when the global economic downturn hit the country in 2009. Accordingly, the country entered into a deep recession, driven by the sharp drop in industrial production and by a decline in private consumption due to the decrease in real disposable household income. While exports decreased, imports fell even faster, resulting in a higher contribution of net exports to GDP growth in 2009. Difficulties around financing, tighter credit conditions and declining foreign direct investments proved to be a burden on private investments. Overall, real GDP fell by 6.3% in 2009 while GDP per capita stood at EUR 9,200. Due to

the unfavourable impact of the economic downturn the unemployment rate increased further to 10.0% in 2009. Even more importantly, the labour market participation rate stood at only 55.4%, among the lowest in the European Union.

The government's crisis management programme comprised a decrease in public spending covering a mix of structural and temporary expenditure saving measures, an increase in revenues and a restructuring of the tax system. Acknowledging the government's commitment to fiscal consolidation and to prevent additional financial market turmoil, a joint financial assistance package of up to EUR 20 billion was provided to Hungary by the EU, the IMF and the World Bank. The funds were linked to policy conditions, such as a further reduction in its budget deficit, which stood at 3.9% of GDP, one of the lowest in Europe.

Mainly influenced by a decline of global energy prices, inflation has remained tame throughout 2009 with average consumer price inflation standing at 4.2%. 2009 proved to be a hectic year for the Hungarian forint driven mainly by political uncertainties. The first half of the year brought a significant depreciation for the currency, with the HUF breaking through the psychologically important level of 300 per EUR in March. Following the introduction of new fiscal tightening measures the forint strengthened significantly, finishing the year at 271 versus the euro. This latter development of the currency allowed the National Bank to cut the base rate by 325 basis points to 6.25%.

Key economic indicators – Hungary	2006	2007	2008	2009e
Population (ave, million)	10.1	10.1	10.0	10.0
GDP (nominal, EUR billion)	89.9	101.1	105.6	92.2
GDP/capita (in EUR thousand)	8.9	10.0	10.5	9.2
Real GDP growth	4.0	1.0	0.6	-6.3
Private consumption growth	1.9	-1.6	-0.6	-7.0
Exports (share of GDP)	64.9	67.4	68.8	64.3
Imports (share of GDP)	67.2	67.3	68.9	59.3
Unemployment (Eurostat definition)	7.5	7.4	7.8	10.0
Consumer price inflation (ave)	3.9	8.0	6.1	4.2
Short term interest rate (3 months eop)	8.1	7.5	10.0	6.2
EUR FX rate (ave)	264.3	251.3	251.3	280.6
EUR FX rate (eop)	251.8	253.4	264.8	270.8
Current account balance (share of GDP)	-7.5	-6.8	-7.2	0.4
General government balance (share of GDP)	-9.2	-5.0	-3.4	-3.9

Source: Erste Group.

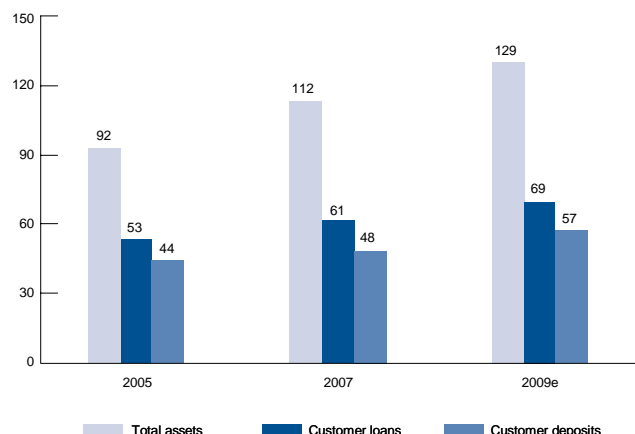
Market review

The economic downturn had a severe impact on the Hungarian banking market. Lending growth crawled to a halt, driven by a currency-adjusted decline in FX loan volumes. Accordingly, local currency loans increased their share of the market for the first time in many years. This trend was due to the abolition of Swiss franc lending and a stricter approach to euro-based lending. In terms of

customer categories the decline in loan volumes was broad-based: the only reason for the somewhat stronger decline in corporate loans compared to retail loans was the higher share in local currency loans in the corporate segment. The deposit market was also characterised by stagnation: while FX deposit volumes rose only due to currency movements, local currency deposits contracted by a low single-digit percentage. Competition for deposits continued to be strong, leading

to margin pressure at those market participants who priced these products as loss-leaders in order to attract new funds and customers.

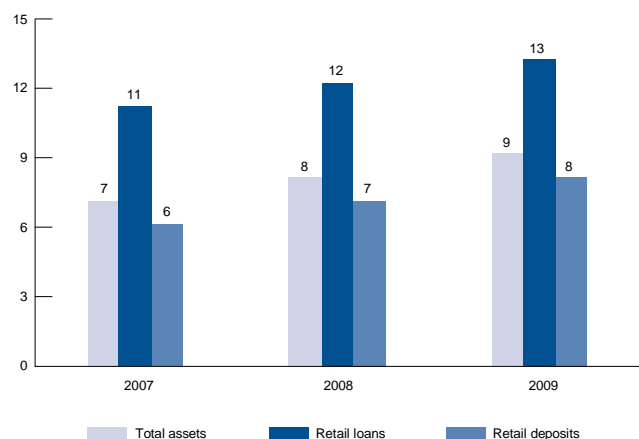
Financial intermediation – Hungary (in % of GDP)



Source: National Bank of Hungary, Erste Group.

In this environment Erste Bank Hungary improved its market share. The bank made the most significant headway in the deposit market, where it improved its market share in all customer segments. In the lending business, market shares also rose compared to 2008. This development was all the more satisfactory as margins improved at the same time; it also led to a decline in the loan-to-deposit ratio of the bank.

Market shares – Hungary (in %)



Source: National Bank of Hungary, Erste Group.

Business review

Strategy. The main strategic goal of Erste Bank Hungary is to be one of the top three banks by net profit and cost/income ratio. At the same time the bank aims to further strengthen its deposit funding base in order to improve the loan-to-deposit ratio. Even though the

business environment changed significantly due to the declining importance of FX lending and generally slowing growth rates, Erste Bank Hungary still aims to grow market shares in the key retail and SME segment in a sustainable manner.

Highlights in 2009

Loan book dominated by secured loans. Erste Bank Hungary remained one of the major players in the mortgage loan market in 2009. Secured lending continued to be the dominant part of the retail portfolio and contributed significantly to net interest income. With a market share of 15% Erste Bank Hungary ranked second in the housing and free-utilisation mortgage loan segments. Although new volumes in the market dropped by 60% to 70% year-on-year, Erste Bank Hungary managed to grow faster than its competitors. In contrast to the trend of previous years, most of the newly issued loans were denominated in euro, rather than Swiss francs, and an increasing portion was based in local currency.

Declining demand for SME and corporate loans. In addition to retail lending, the financing of small and medium-size corporates also generates significant income and profit for the bank. In 2009, though, redemptions outweighed new business, leading to a decline in the stock of SME loans. Profitability suffered from a rise in risk costs. As a result of the weak economic environment corporates sought shorter term loans, as investment activity remained at subdued levels. Due to the interest rate differential new business was mainly euro-based. Despite challenging market conditions Erste Bank Hungary successfully executed its strategy to selectively acquire new customers and increased its corporate market share to 8.8%.

Successful cooperation with the Hungarian Post Office. The strategic cooperation with Erste Bank Hungary's postal distribution partner, the Hungarian Post Office, continued successfully in 2009. While the bank offers a wide range of financial services and products through this variable-cost distribution channel under a separate brand name, the main highlights of 2009 were continued growth in current accounts and deposits: while the former rose by more than 20% to 163 thousand, the latter enjoyed even more impressive growth. Term deposits rose by nearly 60% in 2009 to a total of about EUR 200 million, underscoring the deposit collection potential of the cooperation. In addition to successful business development, a new education programme for Hungarian Post delivery staff was also started.

Brokerage business approaches the top. Erste Investment Hungary, the brokerage subsidiary of Erste Bank Hungary, continued to expand its market share in 2009: in terms of cash trading volumes it ranked second on the Budapest Stock Exchange (BSE) for the full year, while in selected months it already attained the top spot with market shares in excess of 25%. The number of retail customers using electronic sales channels also increased in 2009. This trend was also supported by the recovery in global stock markets since March 2009. During the past year special efforts were made to introduce new investment products to retail customers,

while in the private banking segment, the focus remained on increasing the customer base through marketing investment certificates.

Financial review

in EUR million	2009	2008
Pre-tax profit	83.5	147.4
Net profit after minority interests	57.9	109.5
Operating result	255.7	210.1
Cost/income ratio	45.6%	51.6%
Return on equity	14.7%	34.1%
Customer loans	7,301	7,169
Customer deposits	3,931	3,159

In the Hungarian retail and SME business, net interest income improved from EUR 298.7 million in the previous year to EUR 353.6 million (+18.4% or currency-adjusted +32.6%) mainly due to the continued marked expansion in average customer loans and pricing policy changes. The drop in net commission income from EUR 130.7 million last year by EUR 44.5 million to EUR 86.2 million (-34.1% or currency-adjusted -26.2%) was due to the decreasing contributions from the securities and retail business, but mainly due to the different method of reporting of commission income from foreign currency loans in the two years under review: in 2008, commissions from foreign currency loans were allocated to net commission income, while in 2009 these were reported in the net trading result. Adjusted for this effect, the drop in net commission income was 3.4%. In conjunction with the steep increase in the net trading result of EUR 4.5 million in the previous year to EUR 29.9 million, which was due to the inclusion of commissions from foreign currency loans, the operating result rose from EUR 210.1 million by 21.7% (currency-adjusted: +36.3%) to EUR 255.7 million.

Operating expenses declined by EUR 9.8 million (-4.4% or currency-adjusted +7.1%) from EUR 223.8 million in the previous year to EUR 214.0 million. The currency-adjusted increase is explained by the hike in value added tax in the second half of 2009. The cost/income ratio improved substantially from 51.6% at year-end 2008 to 45.6%. The general economic situation in Hungary and the related currency depreciation (especially in the first and second quarters of 2009) were also behind the rise in risk provisions at Erste Bank Hungary that rose from EUR 73.5 million in 2008 to EUR 170.8 million. The decline in other result was attributable to positive one-time effects in 2008 such as the proceeds from the sale of real estate and participations. At EUR -1.3 million, the other result was EUR 12.1 million lower than the value for the previous year of EUR 10.8 million. Net profit after minorities dropped by 47.1% (currency-adjusted: -40.8%) from EUR 109.5 million to EUR 57.9 million. Return-on-equity was 14.7%.

Credit risk

The entire exposure of the Hungary segment rose by 7.6% to EUR 9.2 billion in 2008, while loans to customers practically stagnated at EUR 7.3 billion (+1.8%). The share in total customer loans of Erste

Group was 5.7% at the end of 2009. The distribution between retail and corporate loans changed slightly in favour corporate financing. The low level of growth in credit volume was due to the difficult macroeconomic situation in Hungary, which did improve over the course of the year, as well as to more restrictive lending; the granting of new loans in Swiss francs was discontinued.

Despite the stop in lending in Swiss francs, the share of foreign currency loans was still almost 78% at the end of 2009. Lending practices were adjusted to the changed economic conditions by assigning an even higher weighting to the cash flows at companies and the income situation of households.

The quality of loans has more or less stabilized after successively deteriorating over several quarters in the second half-year 2009. Around 86% of customer loans were classified in the two best risk categories at year-end (end of 2008: 93%), and the non-performing loans amounted to 7.6% of the total portfolio following 3.4% in December 2008. Defaults were slightly higher among corporate customers than for consumer and housing loans of retail customers. The NLP coverage was around 46% in December 2009, which is satisfactory considering the high share of secured loans and the conservative valuation of real estate.

CROATIA

Business profile. The Croatia segment comprises the retail & SME business of Erste & Steiermärkische Bank (ESB), commonly referred to as Erste Bank Croatia, and Erste Bank Montenegro. It is one of the major banking institutions in Croatia with double-digit market shares in all key product categories. Erste Bank Croatia services some 740,000 clients via network of 124 branches and well developed alternative channels, such as internet and mobile communications as well as ATMs. In addition to banking services, Erste Bank Croatia also occupies leading market positions in a wide range of financial services, such as fund management, pension funds, brokerage and leasing. Erste Bank Montenegro operates 14 branches.

Economic review

In line with the global economic slowdown, Croatia entered into a recession in 2009 with the real GDP falling by 5.9%. GDP per capita stood at EUR 10,300 in 2009. The contraction in output was mainly driven by a considerable drop in domestic demand. Private consumption fell by 8.6% and real investment dropped by 11.9%. Only government consumption grew, as spending was not reduced in line with falling revenues. All in all, domestic demand made a significant negative contribution to GDP growth. At the same time, total exports declined by 20.4% year-on-year, though less strongly than total imports, which were down by 25.9%. Slowing growth and investments impacted the labour market and led to an increase in the average unemployment rate to 9.7% in 2009.

Pressure on the trade balance remained limited due to sluggish domestic demand. Fiscal policy was strongly influenced by the

crisis in 2009 with revenues underperforming in line with decreasing economic activity. The budget deficit deteriorated from 1.6% of GDP to 3.0%. The government introduced some rebalancing measures, such as a special tax on income, a VAT increase of one percentage point and increases in excise taxes to offset falling revenues.

As a result of shrinking domestic demand and lower commodity prices inflationary pressures remained low in 2009. The Croatian National Bank (CNB) has confirmed its strong commitment to exchange rate stability, while the monetary framework did not change in 2009. The strong exchange rate performance triggered several FX interventions boosting FX reserves and gave the CNB leeway to fine-tune short-term liquidity; this led to a moderation in money market rates.

Key economic indicators – Croatia	2006	2007	2008	2009e
Population (ave, million)	4.4	4.4	4.4	4.4
GDP (nominal, EUR billion)	39.1	42.8	47.4	45.3
GDP/capita (in EUR thousand)	8.9	9.7	10.8	10.3
Real GDP growth	4.7	5.5	2.4	-5.9
Private consumption growth	3.5	6.2	0.9	-8.6
Exports (share of GDP)	21.6	21.5	20.6	17.0
Imports (share of GDP)	43.0	43.5	43.5	33.2
Unemployment (Eurostat definition)	11.1	9.6	8.4	9.7
Consumer price inflation (ave)	3.2	2.9	6.1	2.4
Short term interest rate (3 months eop)	4.6	6.9	8.2	3.8
EUR FX rate (ave)	7.3	7.3	7.2	7.3
EUR FX rate (eop)	7.4	7.3	7.3	7.3
Current account balance (share of GDP)	-6.9	-7.6	-9.2	-5.1
General government balance (share of GDP)	-2.1	-1.4	-1.6	-3.0

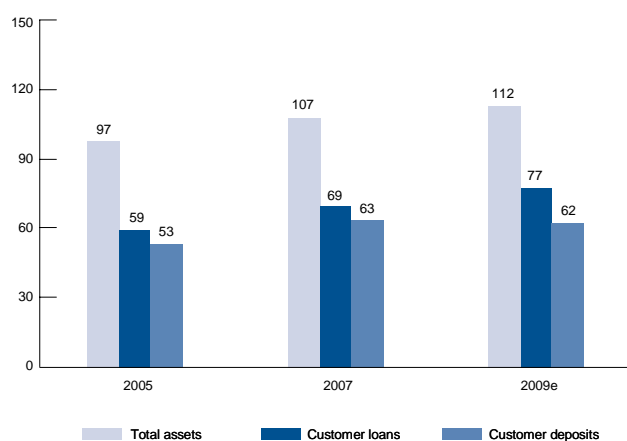
Source: Erste Group.

Market review

The Croatian banking market is among the most developed in the CEE region based on financial intermediation figures. However, lower demand for loans and financing constraints as well as higher risk awareness by banks led to a slowdown in lending, especially to private households. After starting to relax lending restrictions in the second half of 2008, the Croatian Central Bank continued with this policy in 2009 by abolishing the annual loan growth restriction of 12%. Despite this, overall retail and corporate loan volumes remained flat in 2009. At the same time retail deposits rose marginally while corporate deposits decreased, mainly as a result of the economic decline. As in previous years, seasonal effects, such as the tourist trade and exchange rate movements played a role in the development of deposits.

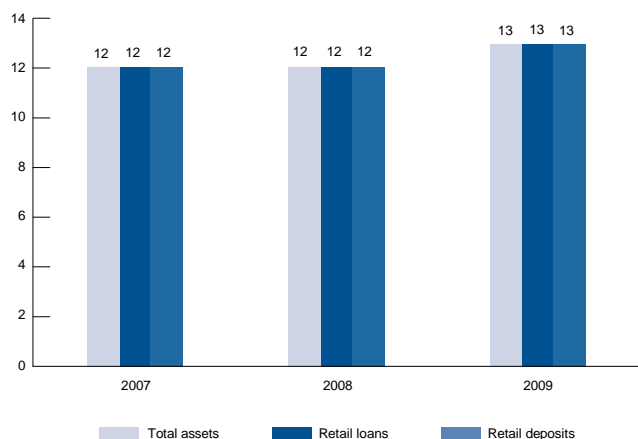
The Croatian banking market continued to be driven by euro-denominated loans and deposits in 2009. The structure of the market was equally unchanged in the past year and Erste Bank Croatia remained the third largest bank in the market. Despite the difficult economic environment, Erste Bank Croatia successfully expanded its market share in almost all client segments. For the first time total asset market share eclipsed 13%, while the deposit market share reached nearly 14% and loan market share was also at an all-time high at above 13%.

Financial intermediation – Croatia (in % of GDP)



Source: National Bank of Croatia, Erste Group.

Market shares – Croatia (in %)



Source: National Bank of Croatia, Erste Group.

Business review

Strategy. Erste Bank Croatia aims to further improve its market position in the medium and long term. In doing so, the bank will continue to focus on mass market and affluent retail customers and SME clients with a favourable risk profile. It aims to provide simple and transparent products through its state-of-the-art branch network and alternative distribution channels. The continued improvement in service quality and a personalised approach to customers, especially in difficult economic times, is also central to the bank's strategy.

Highlights in 2009

Product development in retail banking. In 2009, Erste Bank Croatia mainly focused on exploiting synergies with other Erste Group companies, such as s Leasing, IMMORENT, Erste Factoring, Erste Securities and Erste Card Club in order to improve cross-selling and the development of new financial services. In terms of banking products a new revolving cash loan and an instalment payment facility on debit cards was launched. The streamlining of back office processes through the development of IT support functions was also successfully executed. In addition, new minimum standards for approving loans were introduced together with a risk adjusted pricing methodology for private individuals.

Slowing corporate business. As a result of the economic downturn the corporate business suffered from the lack of volume growth in 2009. While loan demand was mostly met by actively cooperating with Erste Factoring, the deposit business declined slightly, mainly as a result of the weak economic environment. Even though the bank countered these trends by marketing campaigns in order to retain existing customers, it also focused on sensible pricing with a view to maintain margins. The cooperation with the Croatian Bank for Reconstruction and Development (HBOR) continued in 2009 and led to the financing of SME and infrastructure projects in line with availability of HBOR funds.

Adoption of internal ratings based (IRB) approach under Basel II. Following approval of the Austrian regulator, Erste Bank Croatia switched to the IRB approach in the third quarter of 2009. This had a positive effect on the bank's risk-weighted asset volume: the decrease in risk-weighted assets related to private individuals and financial institutions (including sovereign) portfolio more than compensated the increase in corporate segment. However, the savings from the IRB switch were partly offset by the downward migration of the portfolio.

Financial review

in EUR million	2009	2008
Pre-tax profit	100.3	136.2
Net profit after minority interests	51.3	71.8
Operating result	176.2	166.0
Cost/income ratio	42.6%	44.0%
Return on equity	26.4%	45.3%
Customer loans	4,684	4,125
Customer deposits	4,076	3,132

The operating result of the Croatian retail and SME business rose by 6.1% or currency-adjusted 7.8% from EUR 166.0 million to EUR 176.2 million. This was driven mainly by the inclusion of the Montegrin Erste Bank Podgorica as of second quarter 2009. Its contribution to operating profit was EUR 6.0 million. Erste Bank Podgorica has total assets of EUR 181.0 million and operates 14 branches with 212 employees. Furthermore, Erste Factoring Croatia was allocated to this segment and prior periods were accordingly adjusted. Its contribution to operating profit was EUR 10.9 million in the fourth quarter. Net interest income increased from EUR 204.6 million in 2008 to EUR 223.4 million (+9.2%; currency-adjusted +10.9%). Net commission income declined by 3.3% – currency-adjusted 1.8% – from EUR 76.9 million in the previous year to EUR 74.4 million. Due to the contracting foreign exchange business at Erste Card Club, net trading result fell by EUR 5.8 million (-39.5%, currency-adjusted -38.5%) from EUR 14.8 million in 2008 to EUR 9.0 million. At EUR 130.6 million, operating expenses stayed at last year's level of EUR 130.4 million.

The cost/income ratio was 42.6% after 44.0% in the previous year. The increase in risk provisions from EUR 28.1 million in the previous year by EUR 46.4 million to EUR 74.5 million was due to the addition of companies to this segment as well as due to the generally higher risk provisioning requirements caused by deteriorating market conditions. Net profit after minorities dropped from EUR 71.8 million in the previous year to EUR 51.3 million (-28.6% or currency-adjusted -27.4%). Return-on-equity decreased from 45.3% in 2008 to 26.4%.

Credit risk

In the Croatia segment, total exposure increased from EUR 5.9 billion by almost one-fifth to EUR 7.0 billion in 2009. Growth in customer loans was less significant, but was still far above the growth rates in Central and Eastern Europe (+4.4%); they grew by almost 14% to EUR 4.7 billion and increased their share of Erste

Group's overall loan book from 3.3% to 3.6%. The strongest growth rate was recorded in municipality financing. The expansion took place mainly in the first half of the year, while in the second half volumes stagnated. Apart from the general economic situation, the more restrictive lending practice was also a reason for this trend. This concerned mainly retail customers with lower credit ratings as well as employees in the riskier sectors such as the construction industry and real estate sector. Debt collection and debt structuring measures were intensified.

Non-performing loans rose from EUR 181 million to EUR 289 million, i.e., from 4.4% to 6.2% of the total portfolio. Within the segment of performing loans, there were only relatively few shifts compared to other CEE markets. The default rates for private individuals as well as for corporate customers were nearly the same in December 2009. As in other countries, the deterioration in loans to the self-employed and small businesses was disproportionately high; however, this subportfolio accounts for only 5% of total customer loans and is therefore only of minor significance. NLP coverage increased by EUR 60 million to EUR 228 million.

SERBIA

Business profile. The Serbia segment comprises the retail and SME business of Erste Bank Serbia (EBS) which has some 235,000 clients and a network of 73 branches as well as 11 commercial centres for corporate clients. Catering to the needs of broad retail and mid-market corporate client base, the bank is well represented in the all major business centres in Serbia. The bank's current market share is some 3% in key product segments; however, its position is considerably stronger in alternative distribution channels, with an 8% market share in electronic payments in Serbia.

Economic review

Economic growth took the expected hit in 2009 with real GDP in Serbia contracting by 2.9%; GDP per capita amounted to EUR 4,100 in 2009. While outperforming some of Serbia's regional peers, the extent of the contraction was significant, but has to be viewed in the context of strong growth in recent years. Economic activity suffered from two factors: external demand was considerably weaker, triggering a strong export contraction and industrial production weakness; and, the more important domestic demand, which had fuelled growth in recent years, declined as a result of slowing momentum in both domestic and cross-border financing. In line with these developments the labour market suffered from declining employment and moderating wage growth.

The current account adjustment in 2009 was robust, as the current account deficit narrowed to 6.0% of GDP, down from 17.4% in 2008. This was mainly driven by the strongly improving trade balance; continuing remittance payments were also supportive. The financing of the current account deficit was further strengthened by IMF support on the one hand, and the Vienna Initiative, which agreed that major banks should maintain their exposure to Serbia, on the other. In agreement with the IMF the fiscal deficit target for 2009 was set at 4.5% of GDP.

Inflation pressures moderated with average consumer price growth remaining within the National Bank of Serbia's (NBS) 6-10% target band at 8.3%. This development was supported mainly by food prices and a generally weak demand side. The NBS remained aggressive in its rate cutting actions in 2009, lowering the base rate by 830 bps to 9.5% given the favourable inflation and stable exchange rate development. After a turbulent beginning of the year the currency showed a stable development through 2009, mainly due to the agreement with the IMF and the narrowing current account deficit.

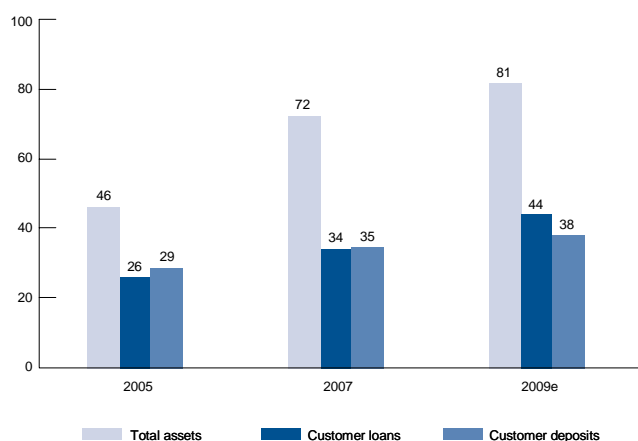
Key economic indicators – Serbia	2006	2007	2008	2009e
Population (ave, million)	7.4	7.4	7.4	7.4
GDP (nominal, EUR billion)	23.6	29.1	33.7	30.7
GDP/capita (in EUR thousand)	3.2	3.9	4.6	4.1
Real GDP growth	5.6	7.1	5.4	-2.9
Private consumption growth	na	na	na	na
Exports (share of GDP)	21.9	22.2	22.0	19.3
Imports (share of GDP)	42.9	44.3	44.7	35.3
Unemployment (Eurostat definition)	20.9	18.1	13.7	16.1
Consumer price inflation (ave)	11.8	6.5	11.7	8.3
Short term interest rate (3 months eop)	15.6	10.3	18.9	10.8
EUR FX rate (ave)	84.2	80.0	81.4	94.0
EUR FX rate (eop)	79.0	79.2	88.6	95.9
Current account balance (share of GDP)	-9.8	-13.2	-17.4	-6.0
General government balance (share of GDP)	-1.5	-1.9	-2.5	-4.5

Source: Erste Group.

Market review

In 2009, the Serbian banking market was supported by the central bank, which aimed at boosting liquidity and credit activity. Apart from lowering the key refinancing rate, the National Bank of Serbia also eased its prudential measures. The economy was in need of monetary stimulus, as banks became more risk averse, leaving the economy without fresh liquidity. Retail FX-based lending was relaxed as the mandatory 30% reserve requirement on FX-based liabilities was cancelled and maturity limitations of loans were abolished. Total banking assets as a percentage of GDP, the broadest measure for financial intermediation, increased to 81% in 2009, as asset growth outpaced slowing nominal GDP growth.

Financial intermediation – Serbia (in % of GDP)



Source: National Bank of Serbia, Erste Group.

Conditions in the Serbian banking market brightened significantly as the year progressed. First of all, external conditions improved, giving local banks easier access to foreign refinancing. This quickly became evident in the rise of banking sector foreign liabilities. Also, deposit growth accelerated in the second half of the year, providing a more stable basis for credit activity. Nonetheless risk appetite remained muted, as banks turned aggressively to financing the low risk public sector. In addition, despite the declining repo rate, banks increased their placements with the national bank. Overall total loans grew by 15.8% in 2009 while total deposits increased by 23.6% in 2009.

Market shares of Erste Bank Serbia remained broadly stable in 2009. In lending business, marginal decreases were registered in the retail and corporate segments. In terms of deposits, an improvement was recorded in the retail business, while a slight decline was observed in the corporate segment.

Business review

Strategy. Erste Bank Serbia's main objective is to build long-term customer relationships and to become the "bank of first choice" for its clients. It aims to become recognised for the quality and efficiency of its services and position itself as a long-term partner of Serbia's growing middle class. The bank also strives to continuously increase market share in the key segments of retail clients as well as small and medium corporates. To achieve this, the bank has developed a state-of-the-art branch network and alternative distribution channels, as well as a wide range of competitive financial products and services.

Highlights in 2009

Strong growth in FX deposits. At the start of the year the deposit market suffered from a number of negative factors, such as the financial crisis and the already very fragile trust in the banking system due to negative experiences during 1990s. As trust returned, significant deposit inflows followed in the second half of 2009. Erste Bank Serbia was particularly successful in attracting new deposits, recording growth of almost 40%. Despite falling interest rates retail euro deposits reached an all-time high after growth of almost 45%. This development once again underscored that Erste Bank Serbia is one of the most trusted banks in the market.

Balanced lending business. In 2009, Erste Bank Serbia took a number of steps to improve the quality of the loan book. Measures included a stronger focus on sustainable growth, i.e. attracting better rated clients with better collateral. In addition, the sale of higher margin products led to a significant increase in fee business. The positive development was also supported by the relaxation of national bank regulations and proactive government action, which supported both retail and corporate lending.

Financial review

in EUR million	2009	2008
Pre-tax profit	2.5	5.9
Net profit after minority interests	1.4	4.7
Operating result	11.0	10.7
Cost/income ratio	74.0%	76.2%
Return on equity	2.8%	10.5%
Customer loans	518	462
Customer deposits	373	287

In 2009, net interest income at Erste Bank Serbia dropped from EUR 33.5 million in the previous year to EUR 28.1 million (-16.0% or currency-adjusted -3.3%). At EUR 7.0 million risk costs were EUR 0.4 million higher than in 2008 (EUR 6.6 million). Net commission income rose by EUR 46.0% (currency-adjusted 68.0%) from EUR 7.4 million to EUR 10.9 million thanks to stable payment transfers fees. Net trading result fell from EUR 4.1 million in 2008 to EUR 3.1 million. At EUR 31.1 million, operating expenses were EUR 3.2 million or 9.5% lower than last year's level. Currency-adjusted though, an increase of 4.4% was reported, resulting mainly from higher personnel and IT expenses. The cost/income ratio improved from 76.2% to 74.0%. The operating profit rose from EUR

10.7 million last year by 2.2% (currency-adjusted +17.6%) to EUR 11.0 million. Nonetheless, net profit after minorities of EUR 1.4 million was EUR 3.3 million below the figure of the previous year. The reason was the positive effect from the sale of investments in the first half-year 2008 which was reflected in the other result. Return-on-equity was 2.8%.

Credit risk

Total exposure in the Serbia segment remained unchanged at EUR 747 million in 2009 (2008: EUR 750 million). In contrast, customer loans grew by a significant 12% to EUR 518 million. At a share of 0.4% in total customer loan volume, the segment Serbia was still only of minor significance for Erste Group. The rise in the credit volume was due primarily to corporate loans, while retail and SME loans hardly grew.

A major percentage of loans was denominated in foreign currency, but the share of loans in local currency increased during 2009. The criteria for granting loans were tightened for employees from sectors disproportionately affected by the economic crisis such as the construction industry.

Credit quality deteriorated in 2009. The share of the best risk categories in the total credit portfolio declined from 53% to 46%, while non-performing loans increased to 8% (2008: 6.1%). The worst deterioration was seen among the self-employed and small businesses; but their share in total exposure was insignificant. There were sufficient provisions for potential losses: the NPL coverage excluding collateral was still more than 100% at the end of 2009.

UKRAINE

Business profile. The Ukraine segment includes the business of Erste Bank Ukraine. The bank offers a wide range of standard bank-

ing services, particularly deposits, current accounts and treasury services to its fast growing retail and corporate customer base. At the end of 2009 Erste Bank Ukraine serviced some 128,000 customers through a country-wide network of 135 branches. As the bank only launched its operations in 2007, its market shares are still small at about 1% in most product categories: in terms of total assets Erste Bank Ukraine ranks 24th.

Economic review

Ukraine is an open economy with a heavy dependence on steel exports to the CIS, the Middle-East and Asian countries. Accordingly, the global economic downturn and the ensuing decline in metal prices and demand led to a deep recession in 2009. Real GDP contracted by 15.0% while GDP per capita decreased to EUR 1,800. In the second half of the year, however, external demand in general and the metal industry in particular showed some signs of recovery. Overall, total industrial production declined by 21.9% in 2009. Due to producing low value added products in a relatively inefficient manner, the economic contraction led to a significant increase in unemployment to 9.0%.

The current account balance ended 2009 in neutral territory, on the back of a rise in exports of goods and an improving trade balance. Foreign direct investments continued to flow into the country, albeit at a lower level than in the previous year. Public debt as a percentage of GDP remained low compared to West European countries at 32.3% of GDP.

Inflation slowed down in 2009 but still remained high compared to other countries in the CEE region as average consumer prices rose by 16.2% in 2009. Declining currency volatility also contributed to this trend.

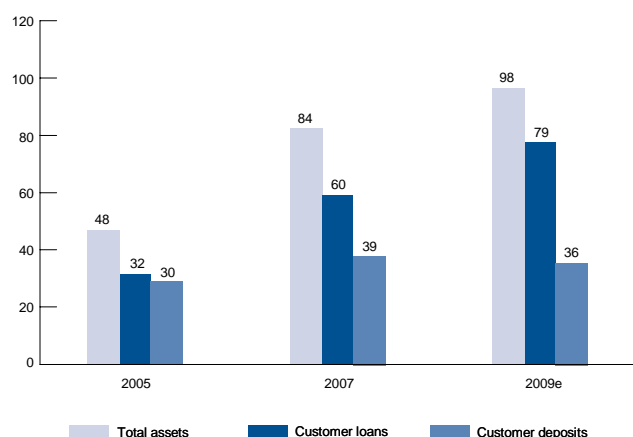
Key economic indicators – Ukraine	2006	2007	2008	2009e
Population (ave, million)	46.6	46.4	46.1	45.8
GDP (nominal, EUR billion)	84.8	103.0	123.8	82.3
GDP/capita (in EUR thousand)	1.8	2.2	2.7	1.8
Real GDP growth	7.1	7.6	2.1	-15.0
Private consumption growth	14.4	17.1	12.0	-14.1
Exports (share of GDP)	36.0	34.7	37.0	35.0
Imports (share of GDP)	42.3	42.8	47.3	39.6
Unemployment (Eurostat definition)	6.9	6.4	6.4	9.0
Consumer price inflation (ave)	9.2	12.8	25.2	16.2
Short term interest rate (3 months eop)	15.0	8.7	23.6	18.1
EUR FX rate (ave)	6.3	6.9	7.7	11.3
EUR FX rate (eop)	6.7	7.4	10.7	11.7
Current account balance (share of GDP)	-2.9	-4.2	-6.7	-1.7
General government balance (share of GDP)	-0.7	-1.1	-1.2	-2.3

Source: Erste Group.

Market review

The Ukrainian banking market was hit hard by the global financial crisis, as it exposed the structural weaknesses of the economy, such as the dependence on external funding. Paired with an uncertain political environment, the majority of banks decided to discontinue lending activities. As a result, total assets of the Ukrainian banking sector shrank by 5.7% in 2009. Due to the strong devaluation of the local currency total banking assets as a percentage of GDP rose significantly. The mistrust towards the banking system also resulted in strong deposit outflows. In order to ease the pressure on the banking system the government injected capital in the amount of 1.8% of the country's GDP into the most troubled banks. The banking market remained fragmented in 2009, with the total number of banks still exceeding 180 and the market leader's total asset share being less than 10%.

Financial intermediation – Ukraine (in % of GDP)



Despite the difficult market environment Erste Bank Ukraine not only retained the trust of its existing customers, but gained substantial new business. In fact, Erste Bank Ukraine was among the biggest market gainers in the deposit business, benefiting from new products and the general mistrust towards many local banks. Accordingly, the bank's retail deposit market share more than doubled. In terms of customer loans, Erste Bank Ukraine developed in line with the market in 2009.

Business review

Strategy. Erste Bank Ukraine's main objective is to strengthen its market position in SME and retail banking, and grow the client and deposit base. Accordingly, the bank has adjusted its business model in response to the economic slowdown and the deteriorating banking market environment. Key measures included the stop of network expansion, cost optimisation, and a scale-back in lending business. As lending is not expected to pick up strongly in the near future, Erste Bank Ukraine will focus on such products as deposits, current accounts and cards.

Highlights in 2009

Strong deposit growth, solid liquidity buffers. Since Erste Bank Ukraine has halted new lending activities in late 2008, the bank very successfully focused on marketing other products, such as deposits and current accounts. In fact, the bank nearly doubled the customer deposit volume against the backdrop of a declining market. Both the liquidity and the capital adequacy situation of the bank remained solid. While the former exceeded the regulatory minimum by four times at year-end 2009, the capital adequacy ratio equalled 17.6%, compared to the National Bank minimum requirement of 10%.

Cost optimisation. As the short and medium-term economic growth outlook has materially deteriorated over the past year, Erste Bank Ukraine focused on adapting its business to the new circumstances. The main focus was on cost-cutting through optimising the branch network and staff redundancies, where necessary. This way the bank cut operating costs by 36%.

Financial review

in EUR million	2009	2008
Pre-tax profit	-86.7	-33.4
Net profit after minority interests	-83.7	-28.7
Operating result	-0.3	-11.1
Cost/income ratio	n.a.	n.a.
Return on equity	n.a.	n.a.
Customer loans	509	616
Customer deposits	84	45

The operating result of Erste Bank Ukraine improved by EUR 10.8 million from EUR -11.1 million in the previous year to EUR -0.3 million (+97.1% or currency-adjusted +95.9%). This was attributable mainly to the considerable reduction in operating expenses by EUR 20.1 million from EUR 56.2 million in the previous year to EUR 36.1 million (-35.7%, currency-adjusted -8.1%). Increased personnel expenses caused by a higher number of employees were compensated mainly by lower other administrative expenses. In comparison to the previous year net interest income declined by EUR 5.9 million or 18.0% from EUR 33.0 million to EUR 27.1 million, mainly as a result of a shrinking loan book. On a currency-adjusted basis, net interest income rose by 17.2%. Net commission income dropped from EUR 2.6 million at year-end 2008 to EUR 1.3 million. Net trading result of EUR 7.5 million was below the value of the previous year of EUR 9.5 million. The significant rise in risk provisions by EUR 55.7 million to EUR 76.7 million was due mainly to the deteriorating loan portfolio as a consequence of market developments in the Ukraine. Overall, net profit after minorities fell by EUR 55.0 million from EUR -28.7 million in the previous year to EUR -83.7 million.

Credit risk

Total credit risk in the Ukraine segment amounted to EUR 630 million and thus clearly below the figure at the end of the previous financial year (EUR 747 million). Loans to customers developed similarly, decreasing from EUR 616 million to EUR 509 million.

Against the backdrop of an economic downturn of 15% in 2009, business volumes declined in all areas; the decrease in corporate lending was most pronounced. The share in Erste Group's total customer loans was only 0.4% at the end of 2009.

The economic situation of the country in 2009 led to a near standstill in new lending activity. The focus was on restructuring loans in order to adjust debt service ratios and repayment schedules jointly with the customers as good as possible to the radically changed economic environment and in this manner guarantee the complete repayment of the loans over the medium to long term.

The deep recession in which the Ukraine has been since the global financial and economic crisis broke out has had a very negative impact on the development of asset quality. The share of loans in the best risk class decreased from 39% to 18% and non-performing loans increased from EUR 12 million to EUR 89 million, therefore to almost one-fifth of total customer loans. An increase in provisions to EUR 81 million sufficiently covered the risk of default.

Group Corporate and Investment Banking (GCIB)

Business profile. The Group Corporate and Investment Banking (GCIB) division employs approximately 1,300 staff and provides a full range of banking services to the group's large corporate clients throughout Erste Group's home market. It achieves this on the basis of a fully divisionalised approach with a mix of industry and product expertise allied to local knowledge and experience. GCIB serves cross-national large corporate clients, institutional and public sector clients, develops real estate projects, and fosters the cross-fertilisation with other business lines in the Group (mainly Capital Markets and Retail/SME). Product specialists of the division offer services in debt financing, equity capital markets, mergers and acquisitions, debt advisory, acquisition finance, infrastructure finance, project finance, syndication, real estate and leasing, and cash management.

Business review

Strategy. The economic downturn and its consequences offer GCIB a unique opportunity to improve its competitive positioning in CEE through professional handling of scarce resources, in particular capital and liquidity, as well as prudent advice in a difficult business environment. In order to efficiently serve clients and take advantage of market opportunities, GCIB is actively improving the quality of its team and deepening its regional cooperation model with professionals throughout the group. Thereby GCIB acts as an integral part of Erste Group (one bank model) and ensures an integrated approach across its business lines towards corporate client needs.

Highlights in 2009

Commercial real estate portfolio remains stable. The Group Real Estate unit focused on the pro-active management of difficult

situations in project and development finance during the economic downturn. These continuing efforts ensured portfolio stability and resulted in only a limited number of loan restructurings. The overall portfolio continued to benefit from a conservative composition, with about 70% of the total exposure of about EUR 19 billion related to the better performing economies of Austria and the Czech Republic. Due to limited market activity the sector composition of the portfolio remained well diversified covering residential properties – of which about 2/3 was low risk residential exposure subsidised by Austrian public institutions – shopping centres, retail outlets and offices. Due to the completion of several projects, the share of land bank, development and construction finance was significantly reduced. The tightened financial environment and the general avoidance of big tickets led to an increased number of syndicated deals. While the number of new deals clearly decreased, major deals in 2009 included participation in the financing of the development of well-located shopping centres in Zagreb and Ostrava, and the financing of an office building in Bucharest.

IMMORENT follows selective business approach. In response to the financial crisis IMMORENT, Erste Group's real estate leasing subsidiary and one of the leading leasing companies in Austria and in CEE, focused its attention on managing risk and revenue, and on the selective acquisition of new business. This was reflected in a stable real estate financing volume of EUR 3.7 billion in 2009. Among the projects of IMMORENT the Prague-based administrative complex "Futurama Business Park" was awarded the prestigious Best of Realty 2009 Award in the category of New Administrative Centre. The completed first stage of this project offers 16 thousand square meters of category A office space. Several other projects, such as "Medical University Graz", were successfully sold in accordance with company strategy. At the end of 2009, the book value of the development portfolio amounted to EUR 350 million, with the main focus being on office and residential buildings.

Group Large Corporates sails safely through rough waters.

The Group Large Corporates (GLC) unit employs about 70 client executives, supported by management and mid office-staff that provide the principal coverage for Erste Group's large corporate and institutional client base for all lending and investment banking services.

In 2009, GLC had to cope with a very challenging market environment. Asset repricing moved centre-stage reflecting the development in credit markets. A high focus was also attached to improving the collateral position, in order to optimise equity consumption. Improvements were also made in reporting and decision making related to deteriorating credit situations. In this respect, the Group Large Corporates and Group Investment Banking units addressed several corporate credit situations with remedial action (e.g. refinancing proposals, selling advice) to help mitigate default risks. On the liability side, GLC continued to be successful in increasing deposit inflows from corporate and institutional clients. Overall, the unit operated profitably in 2009, despite largely increased risk provisions.

Group Investment Banking recovers after a difficult H1 09.

Group Investment Banking (GIB) is focusing on earning fees through mandates for raising public or private equity, advice on buying or selling businesses, and structuring debt finance for acquisitions, in particular leveraged buy-outs by private equity funds. The three group departments Mergers & Acquisitions, Equity Capital Markets and Corporate & Acquisition Finance have hubs in Prague and Vienna with generalist offices in most Erste Group countries. The strategy and business model of GIB is built on the delivery of integrated corporate finance services to clients based in Erste Group's core markets.

2009, in particular the first half, was a difficult year for investment banking in Central and Eastern Europe. There was subdued activity in the leveraged buy-outs as well as in the corporate M&A and IPO market. In the second half activity picked up and GIB managed to secure and complete significant mandates in all three product groups, e.g. acting as bookrunner and M&A co-advisor for CVC in its buy-out of ABInbev's beer brewery business in CEE, acting as sole lead arranger for Central European Media Enterprise's CZK 2.5 billion loan facility in the Czech Republic and acting as co-lead manager for Infineon's EUR 725 million capital increase and PKO's EUR 1.24 billion capital increase in Warsaw. In addition, the M&A team advised the Czech Finance Ministry on the privatization of a majority stake in Technoexport. In Equity Capital Markets the landmark deal was Erste Group's own capital increase of EUR 1.7 billion, in which GIB acted as bookrunner alongside Goldman Sachs and JP Morgan.

Conservative approach pays off for International Business.

Erste Group's 'International Business' unit covers all commercial lending activities outside the group's core markets and is responsible for business development and credit line management for banks and financial institutions. Lending still follows a regional split and covers the world out of the branches in New York, London and Hong Kong as well as the Viennese headquarters. Bank coverage and the newly integrated international financial institutions coverage are centralised in Vienna. The business line contributes to global portfolio diversification as well as to improving the overall credit rating composition of the group. The investment-grade rated part of its portfolio amounted to 75% in 2009.

The International Business unit continued to produce stable income in 2009, driven by interest as well as fee income. In combination with low credit costs this resulted in strong profit generation. The strategy to consequently and consciously forgo marginal income by focusing exclusively on risk-reward when accepting to join lending transactions – especially in "boom" times – has proven right, in helping to minimise risk costs in "bust" years, and underlined the business line's performance as a stable profit contributor throughout the whole credit cycle. Going forward the International Business unit will continue to actively manage the credit portfolio and engage in new business very selectively.

Financial review

in EUR million	2009	2008
Pre-tax profit	218.4	230.0
Net profit after minority interests	166.4	169.8
Operating result	556.0	460.5
Cost/income ratio	23.9%	27.3%
Return on equity	8.0%	11.7%
Customer loans	19,458	20,111
Customer deposits	6,089	5,907

The increase in net interest income from EUR 469.3 million in the previous year by EUR 101.2 million or 21.6% to EUR 570.5 million was achieved primarily by a consistent pricing policy and selective new loan business. Net commission income remained nearly unchanged compared to the previous year at EUR 162.7 million (2008: EUR 161.3 million) despite difficult market conditions. This was also true for general administrative expenses, which rose only slightly from EUR 172.8 million in the previous year to EUR 174.2 million in 2009. The operating result went up substantially for this reason from EUR 460.5 million to EUR 556.0 million (+20.7% vs. 2008). The sharp increase in risk provisions from EUR 186.0 million in the previous year to EUR 267.9 million reflected the market environment. Net profit after minorities decreased by 2.0% from EUR 169.8 million to EUR 166.4 million. The drop in other result by EUR 25.3 million or 56.9% from EUR -44.4 million in the previous year to EUR -69.7 million was due primarily to revaluation requirements in the AfS portfolio in the International Business and Leasing units. The cost/income ratio improved from 27.3% in 2008 to 23.9%, and return-on-equity was 8.0%.

Credit risk

While total exposure in the business segment GCIB expanded by 10% from EUR 42.1 billion to EUR 46.3 billion, there was a slight decline in customer loans from EUR 20.1 billion to EUR 19.5 billion or 15.1% of Erste Group's total credit portfolio. The portfolio is composed primarily of the two subsegments Group Real Estate and Group Large Corporates (GLC).

The quality of the portfolio deteriorated slightly, but the share of the two best risk categories was over 88%, while non-performing loans rose by EUR 400 million from EUR 0.5 billion to EUR 0.9 billion. The majority of non-performing loans were recorded in the CEE business, while the Austrian business remained relatively stable. The restructuring of several major loans also resulted in an increase in non-performing loans. Based on the high ratio of collateral in this business segment, the cover ratio of 42.9% for non-performing loans is sufficient.

Around 75% of the GCIB portfolio was still denominated in euro. In the two business units Group Real Estate and Group Large Corporates, the focus was on the existing portfolio, and wherever necessary, restructuring measures were taken jointly with the customers. In the segment GLC, some negative rating migrations were observed, but defaults of larger accounts were avoided by providing intensive support.

Group Markets (GM)

Business profile. The Group Markets segment comprises the divisionalised business units Group Treasury and Group Capital Markets. Besides Erste Holding's own treasury activities, it also includes the treasury units of the CEE subsidiaries, the foreign branches in Hong Kong and New York, as well as results of the investment banks, in Poland, Hungary and Croatia and Erste Asset Management. The business unit Group Capital Markets (GCM) includes the divisionalised customer and proprietary trading activities of Erste Group. Specifically, GCM is responsible for trading in foreign exchange and interest rate products as well as securities for all customer groups and for the development of market-oriented products.

Business review

Strategy. Group Capital Markets is the link between financial markets, customers and the bank, and perceives its role as "CEE specialist" for its customers in Austria and CEE. In the current environment, it is more important than ever to have the support of a strong partner like Erste Group in Central and Eastern Europe. The range of products is developed jointly with the sales units on an ongoing basis. The success factors are the broad range of standard products, custom-tailored products, competitive prices and professional advisory services. The bank responded very early to the adverse market situation and started developing easy-to-understand products – especially for the retail segment – and products with a strong focus on safe investing. In trading, Group Capital Markets continues to benefit from its market position in the region, its know-how and strong presence in the local markets.

Highlights in 2009

Continued divisionalisation of Group Capital Markets. In 2009, BCR was integrated into the divisional organization of Group Capital Markets. The concept of divisionalisation, which was successfully introduced at the beginning of 2008, is a major factor behind the Group's success. The new structure permits the concentration of risk-taking and trading activities in the Group's trading books, while at the same time preserving regional market know-how by retaining several trading locations. Higher flows improve market positioning and help to reduce redundancies. The respective sales units with direct customer contacts will continue to be located in the regions.

Return of liquidity to bond markets. The return of liquidity was the most important news of the year for the trading units. Bid/ask spreads and interest rate differences between the bond and the derivative market narrowed sharply over the course of the year. The low interest rates induced by the crisis were a major factor behind the robust demand for fixed-interest bonds issued by companies, banks and sovereigns. Another argument that explains the enormous interest in bond markets was the improved creditworthiness of debtors. This improvement was also supported by the stabilizing measures taken by the ECB, governments and the IMF.

Focus on safe investment products. Safe investment was the predominant theme last year. Erste Group profited from this trend and achieved volume growth of almost 200% with its highly conservative product line "Best Garant". Another highlight was the successful issuance of the participation capital of Erste Group, with a portion having been successfully placed in the retail segment. In Hungary, the leading position in the certificates market was strengthened. A new trading platform was set up to make the trading of currencies, commodities and interest rates even better in the future that will reinforce the bank's solid position among customers with a strong interest in the capital market. The highlights in Romania include two index-linked insurance products as well as a five-year bond that was placed for the first time in the retail segment. While demand for mortgage bonds was brisk in Slovakia throughout the year and the newly launched "Best Garant" product line should boost sales further, the predominant theme in the Czech Republic was capital savings products. Additionally, activities in Austria concentrated on investment products with a strong focus on safety (mortgage-backed bonds, capital-guaranteed bonds and supplementary capital).

Customer support key theme of IT investments. The focus of IT investments in the Group Markets segment in 2009 was on improving customer support. In June 2009, a new web portal was launched for retail customers (produkte.erstegroup.com) as well as for institutional and corporate customers (capitalmarkets.erstegroup.com) of Erste Group. The web portal supplies information on capital markets products, markets and trends, research, know-how and CEE competence. A further move to improve customer services was the initiation of a project to develop a customer valuation tool that enables professional customers to assess the value their portfolio positions and conduct simple risk analyses online. Other IT activities include the further development of software for structured products with enormous progress having been achieved in the asset classes of foreign exchange and stocks as well as the launch of the project to upgrade the automated customer order-routing system.

Financial review

in EUR million	2009	2008
Pre-tax profit	480.2	211.1
Net profit after minority interests	367.8	151.5
Operating result	484.0	221.2
Cost/income ratio	31.5%	47.0%
Return on equity	106.9%	79.8%
Customer loans	260	493
Customer deposits	2,087	1,288

The operating result in the segment Group Markets more than doubled from EUR 221.2 million in 2008 to EUR 484.0 million. Decisive for this development was the excellent net trading result in nearly all business areas, especially the substantial improvement over the previous year in Credit Trading and Structuring. In contrast, net interest income declined by EUR 70.6 million or 26.8% from EUR 263.8 million in the previous year to EUR 193.2 million. The

drop in net commission income from EUR 137.8 million at year-end 2008 by EUR 31.7 million or 23.0% to EUR 106.1 million was explained mainly by the market-related drop in volumes of Equity Sales which was only partly compensated by retail and institutional sales as well as Erste Asset Management. Operating expenses increased by 13.3% from EUR 196.1 million to EUR 222.2 million which was due almost exclusively to the extraordinary effects in fourth quarter of 2009 (one-time costs in asset management). Nonetheless, the cost/income ratio improved substantially from 47.0% to 31.5%. Net profit after minorities more than doubled from EUR 151.5 million in the previous year to EUR 367.8 million. Return-on-equity was 106.9% after 79.8% in 2008.

Corporate Center (CC)

Business profile. The Corporate Center segment includes the results of those companies that cannot be directly allocated to a business segment, profit consolidation between the segments, the linear depreciation/amortisation of customer relationships especially for BCR, Erste Card Club and Ringturm KAG as well as one-time effects that were not allocated to any business segment to preserve comparability. Furthermore, the asset/liability management of Erste Group Bank AG (Holding) is allocated to this segment. The results of the local asset/liability management will continue to be allocated to the corresponding individual segments.

Business review

Debt issuance continues as a stable pillar of funding. Debt issuance activity in 2009 was influenced by the economic downturn. Capital market activity focused on government-guaranteed issues in the first quarter of the year, but started to improve in all segments (senior unsecured, covered bonds and even capital transactions) in the second quarter. With the pick-up in capital market activity, refinancing costs also declined to pre-Lehman levels, but were still higher than prior to the financial crisis. Erste Group successfully coped with the challenging environment by issuing three bonds guaranteed by the Republic of Austria during the first half of the year. Total issuance volume was around EUR 4 billion. Due to the re-opening of the covered bond markets in the second quarter, Erste Group successfully issued a EUR 1 billion mortgage-backed bond (Pfandbrief), which was the first of its kind issued in Austria. These issues were complemented by private placements and retail transactions enabling more cost-efficient debt issuance. Overall, 204 instruments totalling EUR 8.2 billion were issued throughout the year.

Reduced reliance on short-term interbank funding. In light of the financial crisis, Erste Group further optimised the liquidity risk through collateral mobilisation, optimisation of intra-group funding flows and flexible pricing of the liquidity risk in the funds transfer pricing system. As a result, the secondary funding profile showed significant improvement: while the portion of long-term funding increased, the total volume of unsecured short-term funding fell by more than 20%. This was made possible by the favourable devel-

opment in customer deposits and the stable loan-to-deposit ratio. The coverage of net cash outflows over different time horizons by high quality collateral was also regularly monitored.

Financial review

in EUR million	2009	2008
Pre-tax profit	-342.2	-1,216.7
Net profit after minority interests	-231.6	-346.9
Operating result	-276.7	-391.6
Cost/income ratio	n.a.	n.a.
Return on equity	n.a.	n.a.

The improvement in net interest income was achieved by positive result contributions from assets/liability management and higher income on capital investments (especially from participation capital). The development of net commission income and general administrative expenses was driven to a large extent by the profit consolidation of banking support operations. The greatly improved trading result was achieved by the positive development of hedging transactions. The other result includes the required linear depreciation/amortisation of the value of customer relationships of BCR, Erste Card Club and Ringturm KAG in an amount of EUR 67.2 million as well as the revaluation requirements of the fair value portfolio. In 2008, the complete write-down of the intangible assets (goodwill) from the Ukraine and Serbia business was allocated to this segment as well as the partial depreciation of intangible assets in Romania in a total amount of EUR 570 million before taxes. Furthermore, another EUR 120 million write-off on the value of customer relationships and goodwill at BCR was required in connection with the sale of the Romanian insurance business. As these items did not recur in 2009, the other result improved significantly.

The item "net profit from discontinued operations" of EUR 631.6 million in 2008 includes net profit after minorities from the sale of the insurance business to Vienna Insurance Group, which closed in September 2008.