Consolidated Financial Statements

Facts and figures  about our business:

Consolidated Financial Statements 2009 (IFRS)

I. Statement of comprehensive income of Erste Group for the year ended 31 December 2009

Income statement

in EUR thousand	Notes	2009	2008
Interest and similar income		10,272,166	11,944,535
Interest and similar expenses		(5,063,964)	(7,052,896)
Income from associates accounted for at equity		12,701	21,509
Net interest income	1	5,220,903	4,913,147
Risk provisions for loans and advances	2	(2,056,568)	(1,071,436)
Fee and commission income		2,320,092	2,426,056
Fee and commission expenses		(547,291)	(455,004)
Net fee and commission income	3	1,772,801	1,971,053
Net trading result	4	585,097	114,697
General administrative expenses	5	(3,807,396)	(4,001,898)
Other operating result	6	(355,807)	(778,761)
Result from financial assets – at fair value through profit or loss	7	113,153	(295,629)
Result from financial assets – available for sale	8	(204,114)	(213,800)
Result from financial assets – held to maturity	9	(6,789)	(61,133)
Pre-tax profit from continuing operations		**1,261,280**	**576,240**
Taxes on income	10	(284,651)	(177,302)
Post-tax profit from continuing operations		**976,629**	**398,937**
Profit from discontinued operations net of tax	11	0	639,665
Net profit for the year		**976,629**	**1,038,602**
attributable to			
non-controlling interests		73,239	178,988
owners of the parent	**12**	**903,390**	**859,614**

Earnings per share

Earnings per share constitute net profit for the year attributable to owners of the parent divided by the average number of ordinary shares outstanding. Diluted earnings per share represent the maximum potential dilution (increase in the average number of shares) which would occur if all subscription and conversion rights granted were exercised (also see Note 34, Total equity).

		2009	2008
Net profit for the year attributable to owners of the parent	in EUR thousand	903,390	859,614
Dividend participation capital		(141,100)	0
Net profit for the year attributable to owners of the parent after deduction of dividend on participation capital		762,290	859,614
thereof continuing operations		762,290	250,549
thereof discontinued operations		0	609,065
Weighted average number of shares outstanding	Number	322,206,516	313,218,568
Earnings per share	**in EUR**	**2.37**	**2.74**
thereof continuing operations		**2.37**	**0.80**
thereof discontinued operations		**0.00**	**1.94**
Weighted average number of shares taking into account the effect of dilution	Number	322,263,559	313,489,516
Diluted earnings per share	in EUR	2.37	2.74
thereof continuing operations		2.37	0.80
thereof discontinued operations		0.00	1.94

Statement of comprehensive income

in EUR thousand	2009	2008
Net profit for the year	**976,629**	**1,038,602**
Other comprehensive income		
Available for sale-reserve (including currency translation)	1,124,057	(882,772)
Reclassification adjustments	21,941	52,745
Cash flow hedge-reserve (including currency translation)	8,453	135,593
Reclassification adjustments	4,572	13,935
Actuarial gains and losses	37,303	6,319
Currency translation	(203,407)	(611,047)
Deferred taxes on items recognised in other comprehensive income	(405,797)	242,179
Reclassification adjustments	(24,544)	(2,989)
Other comprehensive income – total	**560,609**	**(1,109,728)**
Total comprehensive income	**1,537,238**	**(71,126)**
attributable to		
non-controlling interests	376,096	34,122
owners of the parent	1,161,142	(105,248)

II. Balance Sheet of Erste Group at 31 December 2009

in EUR thousand	Notes	2009	2008
ASSETS			
Cash and balances with central banks	13	5,996,253	7,556,245
Loans and advances to credit institutions	14	13,139,942	14,344,033
Loans and advances to customers	15	129,133,721	126,184,918
Risk provisions for loans and advances	16	(4,954,291)	(3,782,793)
Trading assets	17	8,597,988	7,534,383
Financial assets – at fair value through profit or loss	18	2,997,230	4,057,770
Financial assets – available for sale	19	16,389,828	16,033,080
Financial assets – held to maturity	20	14,899,067	14,145,411
Equity holdings in associates accounted for at equity	21	240,575	260,396
Intangible assets	22	4,866,518	4,804,486
Property and equipment	22	2,343,859	2,385,994
Tax assets	23	577,462	858,624
Assets held for sale	24	57,785	525,578
Other assets	22, 25	7,424,242	6,533,020
Total assets		**201,710,179**	**201,441,145**
LIABILITIES AND EQUITY			
Deposits by banks	26	26,295,125	34,671,550
Customer deposits	27	112,042,412	109,304,601
Debt securities in issue	28	29,612,066	30,483,574
Trading liabilities	29	3,156,697	2,519,554
Provisions	30	1,670,015	1,620,418
Tax liabilities	23	361,121	389,145
Liabilities associated with assets held for sale	31	0	342,855
Other liabilities	32	6,301,603	4,967,572
Subordinated liabilities	33	6,148,376	6,046,632
Total equity	34	16,122,764	11,095,244
attributable to			
non-controlling interests		3,414,234	3,016,473
owners of the parent		12,708,530	8,078,771
Total liabilities and equity		**201,710,179**	**201,441,145**

III. Statement of Changes in Total Equity

A) STATEMENT OF CHANGES IN TOTAL EQUITY FOR THE YEAR ENDED 31 DECEMBER 2009

in EUR million	Subscribed capital	Additional paid-in capital	Retained earnings and other reserves	Total owners of the parent	Non-controlling interests	Total equity 2009
Total equity at 31 December 2008	**634**	**4,583**	**2,862**	**8,079**	**3,016**	**11,095**
Changes in own shares			201	201		201
Purchase			(2,327)	(2,327)		(2,327)
Sale			2,503	2,503		2,503
Result			25	25		25
Dividends			(203)	(203)	(92)	(295)
Capital increases[1) 2)]	122	1,588		1,710		1,710
Participation capital[3)]	1,761			1,761		1,761
Total comprehensive income			1,161	1,161	376	1,537
Net profit for the year			903	903	73	976
Other comprehensive income			258	258	303	561
thereof currency translation			(164)	(164)	(39)	(203)
Change in interest in subsidiaries					114	114
Total equity at 31 December 2009	**2,517**	**6,171**	**4,021**	**12,709**	**3,414**	**16,123**

Other comprehensive income reserves at 31 Dec 2009			
Cash flow hedge reserve	73	26	99
Available for sale reserve	(372)	17	(355)
Actuarial gains/losses from long-term employee provisions	(238)	(90)	(328)
Deferred tax[4)]	82	17	99

1) Capital increase in connection with ESOP (Employee Share Option Plan)

2) In November 2009, Erste Group increased equity by the public placement of ordinary shares in a total nominal amount of EUR 1.74 bn. Increase in equity net of expenses incurred by the capital increase and related tax effects totalled EUR 1.70 bn. Expenses incurred by the capital increase decreased the equity by EUR 54 m and the positive tax effect from tax-deductible expenses incurred by the capital increase resulted in an increase of equity by EUR 13 m.

3) In April 2009, Erste Group placed participation capital in a total nominal amount of EUR 1.76 bn. Of this EUR 1.22 bn was subscribed to by the Republic of Austria and EUR 540 m by private parties. Increase in equity net of expenses incurred by the capital increase and related tax effects totalled EUR 1.76 bn. Expenses incurred by the capital increase decreased the equity by EUR 4 m and the positive tax effect from tax deductible expenses incurred by the capital increase resulted in an increase of equity by EUR 1 m. See also note 34

4) For disclosure of tax effects relating to each component of other comprehensive income, see note 10.

For further details, see note 34, total equity.

B) STATEMENT OF CHANGES IN TOTAL EQUITY FOR THE YEAR ENDED 31 DECEMBER 2008

in EUR million	Subscribed capital	Additional paid-in capital	Retained earnings and other reserves	Total owners of the parent	Non-controlling interests	Total equity 2008
Total equity at 31 December 2007	**632**	**4,557**	**3,263**	**8,452**	**2,951**	**11,403**
Changes in own shares			(61)	(61)		(61)
Purchase			(1,063)	(1,063)		(1,063)
Sale			996	996		996
Result			6	6		6
Dividends			(235)	(235)	(74)	(309)
Capital increases[1)]	2	26		28		28
Total comprehensive income			(105)	(105)	34	(71)
Net profit for the year			860	860	179	1,039
Other comprehensive income			(965)	(965)	(145)	(1,110)
thereof currency translation			(534)	(534)	(77)	(611)
Change in interest in subsidiaries				0	105	105
Total equity at 31 December 2008	**634**	**4,583**	**2,862**	**8,079**	**3,016**	**11,095**

Other comprehensive income reserves at 31 Dec 2008						
Cash flow hedge reserve				70	21	91
Available for sale reserve				(1,073)	(406)	(1,479)
Actuarial gains/losses from long-term employee provisions				(254)	(112)	(366)
Deferred tax[2)]				380	125	505

1) Capital increase in connection with the ESOP (Employee Share Option Plan) and MSOP (Management Share Ownership Plan).

2) For disclosure of tax effects relating to each component of other comprehensive income, see note 10.

IV. Cash Flow Statement

in EUR million	2009	2008
Profit from continuing operations	**977**	**399**
Profit from discontinued operations	**0**	**640**
Net profit for the year	**977**	**1,039**
Non-cash adjustments for items in net profit for the year		
Depreciation, amortisation, impairment and reversal of impairment, revaluation of assets	826	1,359
Allocation to and release of provisions (including risk provisions)	2,152	1,234
Gains/(losses) from the sale of assets	(122)	191
Other adjustments	29	(1,554)
Changes in assets and liabilities from operating activities after adjustment for non-cash components		
Loans and advances to credit institutions	1,338	885
Loans and advances to customers	(1,957)	(10,803)
Trading assets	(1,012)	(833)
Financial assets – at fair value through profit or loss	1,174	180
Financial assets – available for sale	392	(137)
Other assets from operating activities	(880)	(2,132)
Deposits by banks	(8,709)	(875)
Customer deposits	1,852	7,693
Debt securities in issue	(951)	(840)
Trading liabilities	613	672
Other liabilities from operating activities	932	1,058
Cash flow from operating activities	**(3,346)**	**(2,863)**
thereof discontinued operations	**0**	**468**
Proceeds of disposal		
Financial assets – held to maturity and associated companies	2,109	4,931
Property and equipment, intangible assets and investment properties	489	810
Acquisition of		
Financial assets – held to maturity and associated companies	(3,036)	(3,072)
Property and equipment, intangible assets and investment properties	(940)	(930)
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	(84)	(38)
Disposal of subsidiaries	0	1,145
Cash flow from investing activities	**(1,462)**	**2,846**
thereof discontinued operations	**0**	**(355)**
Capital increases	3,470	28
Dividends paid	(203)	(235)
Other financing activities (mainly changes of subordinated liabilities)	98	572
Cash flow from financing activities	**3,365**	**365**
thereof discontinued operations	**0**	**19**
Cash and cash equivalents[1] at beginning of period	**7,556**	**7,615**
Cash flow from operating activities	(3,346)	(2,863)
Cash flow from investing activities	(1,462)	2,846
Cash flow from financing activities	3,365	365
Effect of currency translation	(117)	(407)
Cash and cash equivalents[1] at end of period	**5,996**	**7,556**
Cash flows related to taxes, interest and dividends	**4,959**	**4,571**
Payments for taxes on income	(262)	(342)
Interest received	10,124	11,744
Dividends received	161	222
Interest paid	(5,064)	(7,053)

1) Cash and cash equivalents are equal to cash in hand and balances with central banks.

Cash flow from disposal and acquisition of subsidiaries

in EUR million addition/decrease from acquisition/disposal Successive share purchase	Ringturm KAG 95.0%	Erste Bank ad, Podgorica 65.35%	Savings banks in Haftungs-verbund 0.00%	Total
Cash and cash equivalents	0	22	8	
Loans and advances to credit institutions	1	19	114	
Loans and advances to customers	0	122	951	
Risk provisions for loans and advances	0	(4)	(42)	
Financial assets – available for sale	0	0	287	
Property and equipment	0	4	12	
Intangible assets	85	1	3	
Other assets	4	2	23	
Deposits by banks	0	24	309	
Customer deposits	0	113	773	
Debt securities in issue	0	0	80	
Other liabilities	23	7	48	
Total equity	67	22	145	
Shares purchased/disposed	95.00%	65.35%	0.00%	
Owners of the parent	64	14	0	
Non-controlling interests	3	8	145	
Total	**67**	**22**	**145**	
Goodwill	36	(9)	0	
Purchase price	100[1)]	13[1)]	0	113
Cash and cash equivalents		22	8	(30)
Cash flow from acquisition of companies net of cash and cash equivalents acquired				**84**

1) Total purchase / selling price was settled in cash.

The shares disclosed above refer to directly and indirectly held shares of Erste Group Bank AG.

V. Notes to the Financial Statements of Erste Group

A. GENERAL INFORMATION

Erste Group Bank AG is Austria's oldest savings bank and the largest wholly privately-owned Austrian credit institution listed on Vienna Stock Exchange. It is also quoted on Prague Stock Exchange (since October 2002) and on Bucharest Stock Exchange (since 14 February 2008). The registered office of Erste Group Bank AG is located at Graben 21, 1010 Vienna, Austria.

Erste Group offers a complete range of banking and other financial services, such as savings accounts, asset management (including investment funds), consumer credit and mortgage lending, investment banking, securities and derivatives trading, portfolio management, project finance, foreign trade financing, corporate finance, capital market and money market services, foreign exchange trading, leasing and factoring.

The consolidated financial statements of Erste Group for the 2009 financial year and the comparable data for 2008 were prepared in compliance with applicable International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) published by the International Accounting Standards Board (IASB) and with their interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC, formerly Standing Interpretations Committee or SIC) as adopted by the European Union, thus satisfying the requirements of Section 59a Austrian Banking Act and Section 245a Austrian Commercial Code.

Except as otherwise indicated, all amounts are stated in millions of euros. The tables in this report may contain rounding differences.

The Supervisory Board approved the consolidated financial statements on 16 March 2010 for publication.

B. ACQUISITIONS AND DISPOSALS

Acquisitions in 2009

With effect from 21 January 2009, Sparkasse Kufstein AG joined the Haftungsverbund of the Austrian savings banks. Since that date, the savings bank has been included in the consolidated financial statements of Erste Group. Erste Group holds no equity interest in this savings bank.

In aggregate, the savings bank`s identifiable assets acquired and liabilities assumed, measured at fair value, had the following composition at the time of initial consolidation:

in EUR million	Carrying amount	Fair value adjustment	Fair value
Cash and balances with central banks	7.5	0.0	7.5
Loans and advances to credit institutions	113.6	0.0	113.6
Loans and advances to customers	951.1	0.0	951.1
Risk provisions for loans and advances	(46.4)	4.4	(42.0)
Property and equipment	11.8	0.0	11.8
Other assets	293.2	19.7	312.9
ASSETS	**1,330.8**	**24.1**	**1,354.9**
Deposits by banks	309.3	0.0	309.3
Customer deposits	772.7	0.0	772.7
Debt securities in issue	79.9	0.0	80.0
Other liabilities	37.5	10.9	48.4
Total equity	131.4	13.2	144.5
LIABILITIES AND EQUITY	**1,330.8**	**24.1**	**1,354.9**

The fair value adjustments pertain to risk provisions for loans and advances, measurement of securities, employee benefit provisions and the related deferred taxes.

The contribution of Sparkasse Kufstein to the operating income of Erste Group from the time of initial consolidation was EUR 37.9 million; the contribution to net profit attributable to owners of the parent was EUR 0 million.

Erste & Steiermärkische Bank d.d Rijeka acquired a total of 100.0% (65.35% directly and indirectly held shares by Erste Group Bank AG) of Erste Bank ad, Podgorica (former Opportunity Bank). Erste Bank ad, Podgorica is included in the consolidated financial statements of Erste Group with effect from 31 March 2009, by full consolidation.

The total purchase price for the acquisition of the shares of Erste Bank ad, Podgorica including transaction costs, was about EUR 13.5 million.

The identifiable assets acquired and liabilities assumed, measured at fair value had the following composition at the time of initial consolidation:

in EUR million	Carrying amount	Fair value adjustment	Fair value
Cash and balances with central banks	22.3	0.0	22.3
Loans and advances to credit institutions	19.2	0.0	19.2
Loans and advances to customers	121.6	0.0	121.6
Risk provisions for loans and advances	(4.2)	0.0	(4.2)
Property and equipment	4.3	0.0	4.3
Other assets	3.0	0.0	3.0
ASSETS	**166.2**	**0.0**	**166.2**
Deposits by banks	23.7	0.0	23.7
Customer deposits	112.6	0.0	112.6
Other liabilities	7.5	0.0	7.5
Total equity	22.4	0.0	22.4
LIABILITIES AND EQUITY	**166.2**	**0.0**	**166.2**

The resulting negative goodwill in amount of HRK 65.6 million or EUR 9.0 million was recognised directly in profit or loss.

The contribution of Erste Bank ad, Podgorica to the operating income of Erste Group since the time of initial consolidation was EUR 14.0 million; its contribution to net profit attributable to owners of the parent was EUR 0.4 million. Had Erste Bank a.d., Podgorica already been included in Erste Group's consolidated financial statements from 1 January 2009, its contribution to operating income would have been EUR 16.2 million. Likewise net profit attributable to owners of the parent would have been EUR 0.7 million.

During the course of selling the insurance activities, 95.0% of asset management business (Ringturm Kapitalanlagegesellschaft m.b.H) of Vienna Insurance Group (VIG) was acquired by Erste Group, with a view to a further intensification of cooperation with the VIG. Ringturm Kapitalanlagegesellschaft m.b.H was included in the consolidated financial statements of Erste Group with effect from 31 March 2009, by full consolidation.

The total purchase price for the acquisition of the shares was EUR 100 million. The resulting goodwill amounted to EUR 36.3 million.

Customer relationships were recognised separately from goodwill. At initial consolidation, customer relationships were valued at EUR 84.8 million and amortised on a straight line basis over the expected useful life of about 20 years.

The identifiable assets acquired and liabilities assumed, measured at fair value, had the following composition at the time of initial consolidation:

in EUR million	Carrying amount	Fair value adjustment	Fair value
Loans and advances to credit institutions	1.4	0.0	1.4
Loans and advances to customers	0.0	0.0	0.0
Risk provisions for loans and advances	0.0	0.0	0.0
Customer relationships	0.0	0.0	0.0
Property and equipment	0.0	0.0	0.0
Other assets	4.3	0.0	4.3
ASSETS	**5.7**	**0.0**	**5.7**
Deposits by banks	0.0	0.0	0.0
Customer deposits	0.0	0.0	0.0
Other liabilities	2.2	0.0	2.2
Total equity	3.5	0.0	3.5
LIABILITIES AND EQUITY	**5.7**	**0.0**	**5.7**

The contribution of Ringturm Kapitalanlagegesellschaft m.b.H to the operating income of Erste Group since the time of initial consolidation has been EUR 6.6 million; its contribution to net profit attributable to owners of the parent was EUR 2.3 million. Had Ringturm Kapitalanlagegesellschaft m.b.H already been included in Erste Group's consolidated financial statements from 1 January 2009, its contribution to operating profit would have been EUR 7.9 million. Likewise net profit attributable to owners of the parent would have been EUR 2.7 million.

Acquisitions in 2008

Steiermärkische Sparkasse acquired a total of 99.22% of Investbanka a.d. Skopje (24.81% directly and indirectly held shares by Erste Group Bank AG), Macedonia. Investbanka a.d. Skopje is included in the consolidated financial statements of Erste Group with effect from 1 October 2008, by full consolidation.

The total purchase price for the acquisition of the shares of Investbanka a.d. Skopje, including transaction costs, was about EUR 38.5 million. The resulting goodwill, after net asset value adjustments, was MKD 1,136.5 million or EUR 18.4 million.

In 2008, Steiermärkische Sparkasse acquired a further 32.34% of ABS Banka d.d. (8.09% directly and indirectly held shares by Erste Group Bank AG), Bosnia-Herzegovina, and thus owned 95.29% of the shares of ABS Banka d.d. at 31 December 2008. ABS Banka d.d., is included in the consolidated financial statements of Erste Group with effect from 3 April 2007, by full consolidation.

The total purchase price (including transaction costs) of the 32.34% stake was about EUR 35.9 million, resulting in goodwill at the acquisition date of BAM 27.9 million or EUR 14.3 million.

Having joined the Haftungsverbund, four additional savings banks – Sparkasse Mittersill Bank AG, Sparkasse der Stadt Kitzbühel, Sparkasse Reutte AG and Sparkasse Schwaz AG – have been included in the consolidated financial statements of Erste Group since 12 January 2008. Erste Group does not hold any equity interests in these savings banks.

Shareholdings in significant companies and their representation in the consolidated financial statements are detailed in Note 51.

Disposals in 2008

On 15 September 2008, following the signing of the contract on 26 March 2008, Erste Group Bank AG largely completed the sale of its insurance holdings in Central and Eastern Europe (including s Versicherung in Austria) to Vienna Insurance Group, having received approval from the competition regulators and local insurance authorities. Upon final approval of the Romanian competition and insurance supervisors, the Romanian portion of the transaction was concluded on 17 December 2008. Under the terms of the transaction, Erste Group and the local subsidiaries retrospectively retain a 5% ownership interest in the local life insurance companies. In 2008, the contribution from this transaction to Erste Group's net profit attributable to owners of the parent was EUR 601.5 million.

In addition to the sale of the insurance subsidiaries, a mutual sales cooperation agreement was concluded with Vienna Insurance Group for a term of 15 years. The value of the sales agreement is EUR 300 million and will be deferred over the 15-year period.

C. ACCOUNTING POLICIES

a) BASIS OF CONSOLIDATION

Entities under common control

All subsidiaries directly or indirectly controlled by Erste Group Bank AG are consolidated in the group financial statements, on the basis of the subsidiaries' annual accounts at and for the year ended 31 December 2009.

Subsidiaries are consolidated from the date on which control is transferred to the Bank. Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date of acquisition or up to the date of disposal. The financial statements of the Bank's subsidiaries are prepared for the same reporting year as Erste Group Bank AG, using consistent accounting policies.
All intra-group balances, transactions, income and expenses are eliminated. Non-controlling interests represent the portion of total comprehensive income and net assets, which are not attributable to the group.

Erste Group Bank AG is a member of the Haftungsverbund of the Austrian savings bank sector. At the balance sheet date almost all of Austria's savings banks, in addition to Erste Group Bank AG and Erste Bank der oesterreichischen Sparkassen AG, formed part of this Haftungsverbund.

The provisions of the agreement governing the Haftungsverbund are implemented by the steering company Haftungsverbund GmbH. Erste Group Bank AG indirectly always holds at least 51% of the subscribed capital of the steering company, through Erste Bank der oesterreichischen Sparkassen AG. Two of the four members of the steering company's management, including the CEO, who has the casting vote, are appointed by Erste Bank der oesterreichischen Sparkassen AG. The steering company is vested with the power to monitor the common risk policies of its members. As well, if a member encounters serious financial difficulties – this can be discerned from the specific indicator data that is continually generated – the steering company has the mandate to provide support measures and/or to intervene, as required, in the business management of the affected member savings bank. As Erste Group Bank AG owns the controlling interest in the steering company, it exercises control over the members of the cross-guarantee system. In accordance with IFRS, all Haftungsverbund members are therefore fully consolidated.

Investments in associates

Investments in companies over which Erste Group Bank AG exercises a significant influence ('associates') are accounted for under the equity method. As a general rule, significant influence is presumed by an ownership interest of between 20% and 50%. Joint ventures are also included using the equity method. Under the equity method, an interest in an associate is recognised in the balance sheet at cost plus post-acquisition changes in the group's share of the net assets of the entity. The group's share of the associate's profit or loss is recognised in the income statement. Entities accounted for under the equity method are recognised largely on the basis of annual financial statements at – and for the year ended on – 31 December 2009.

b) ACCOUNTING AND MEASUREMENT METHODS

Foreign currency translation

The consolidated financial statements are presented in euro which is the functional currency of Erste Group Bank AG. The functional currency is the currency of the primary business environment in which an entity operates. Each subsidiary in the group determines its own functional currency and items included in the financial statements of each subsidiary are measured using that functional currency.

For foreign currency translation, exchange rates quoted by the central banks in each country were used. For group entities with the euro as functional currency, these are the ECB reference rates.

(i) Transactions and balances

Transactions in foreign currencies are initially recorded at the functional currency exchange rate effective at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange at the balance sheet date. All resulting exchange differences that arise are recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

(ii) Group companies

As at the reporting date, assets and liabilities of foreign subsidiaries are translated into Erste Group's presentation currency euro at the rate of exchange as at the balance sheet date (closing rate). Their statements of comprehensive income (including other comprehensive income) are translated at average exchange rates for the year. Goodwill and fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition (including the recognition of intangible assets such as customer relationships and brand) are treated as assets and liabilities of the foreign subsidiaries and are translated at the closing rate. Exchange differences arising on translation are recognised in other comprehensive income. On disposal of a foreign subsidiary, the cumulative amount recognised in other comprehensive income relating to that particular foreign subsidiary is recognised in profit or loss.

Financial instruments – initial recognition and subsequent measurement

(i) Date of recognition
Financial instruments are initially recognised when Erste Group becomes a party to the contractual provisions of the instrument. Regular way (spot) purchases and sales of financial assets are recognised at settlement date which is the date that an asset is delivered.

(ii) Initial measurement of financial instruments
The classification of financial instruments at initial recognition depends on the purpose and the management's intention for which the financial instruments were acquired and their characteristics. Financial instruments are measured initially at their fair value plus transaction costs. However in the case of financial assets and financial liabilities designated at fair value through profit or loss, transaction costs are not included.

(iii) Derivatives
Derivatives used by Erste Group include mainly interest rate swaps, futures, forward rate agreements, interest rate options, currency swaps and currency options. Derivatives are measured at fair value. Changes in fair value are recognised in profit or loss except those resulting from cash flow hedges accounted in accordance with hedge accounting. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Derivatives held on the trading book are reported in the balance sheet line 'Trading assets / Trading liabilities', derivatives held on the banking book are disclosed under 'Other assets / Other liabilities'.

(iv) Financial assets or financial liabilities held-for-trading
Financial assets or financial liabilities held-for-trading are recorded at fair value in the balance sheet. Changes in fair value including interest income and expenses as well as dividend income resulting from financial instruments held-for-trading are reported in 'Net trading result'. Included in held-for-trading are debt securities, equity instruments acquired or issued principally for the purpose of selling or repurchasing in the near term as well as positive or negative fair values of trading derivatives. They are presented as 'Trading assets' or 'Trading liabilities' in the balance sheet.

(v) Financial assets or financial liabilities designated at fair value through profit or loss
Financial assets or financial liabilities classified in this category are those that have been designated by management on initial recognition in accordance with the Group's internal guideline (Fair Value Option). Management may only designate a financial instrument at fair value through profit or loss upon initial recognition when the following criteria are met, and designation is determined on an instrument by instrument basis:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains one or more embedded derivatives which significantly modify the cash flows that otherwise would be required by the contract and the embedded derivative is not closely related.

Financial assets designated at fair value through profit or loss are recorded in the balance sheet at fair value in the line 'Financial assets – at fair value through profit or loss' with changes in fair value recognised in profit or loss in the line 'Result from financial assets – at fair value through profit or loss'. Interest earned on debt instruments is shown in 'Interest and similar income' Also, dividend income on equity instruments is presented in 'Interest and similar income' when the right to the payment has been established.

Financial liabilities designated at fair value through profit or loss are reported under respective financial liabilities positions 'Deposits by banks', 'Customer deposits' or 'Debt securities in issue'. Changes in fair value are recognised in 'Result from financial assets – at fair value through profit or loss'. Interest incurred is shown as 'Interest and similar expenses'.

(vi) Available-for-sale financial assets
Available-for-sale assets include equity and debt securities as well as other investments in non-consolidated companies. Equity investments classified as available-for-sale are those which are neither classified as held-for-trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial measurement, available-for-sale financial assets are subsequently measured at fair value. Unrealised gains and losses are recognised directly in other comprehensive income and reported in the 'Available-for-sale reserve' until the financial asset is disposed of or impaired. If the fair value of investments in non-consolidated companies, which are classified as available for sale, cannot be measured reliably, they are recorded at cost. If available-for-sale assets are disposed of or impaired, the cumulative gain or loss previously recognised directly in other comprehensive income is reclassified to profit or loss and reported under the line item 'Result from financial assets – available for sale'. In the balance sheet, available-for-sale financial assets are disclosed in the line item 'Financial assets – available for sale'.
Interest and dividend income on available-for-sale financial assets are reported in the income statement as 'Interest and similar income'.

(vii) Held-to-maturity financial investments
Held-to-maturity financial investments, reported as 'Financial assets – held to maturity' in the balance sheet, are non-derivative financial assets with fixed or determinable payments and fixed maturities, if Erste Group has the intention and ability to hold them until maturity. After initial recognition held-to-maturity financial investments are subsequently measured at amortised cost including impairment. Interest earned on financial assets held-to-maturity is reported in 'Interest and similar income'. Losses arising from impairment of such investments as well as realised gains or losses from selling are recognised in the income statement in the line 'Result from financial assets – held to maturity'.

(viii) Loans and advances
The balance sheet line items 'Loans and advances to credit institutions' and 'Loans and advances to customers' meet the definition of loans and receivables category. They include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:
- those that Erste Group intends to sell immediately or in the near term and those that Erste Group upon initial recognition designates as at fair value through profit or loss;
- those that Erste Group, upon initial recognition, designates as available for sale; or
- those for which Erste Group may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, loans and advances are subsequently measured at amortised cost including impairment. Interest income earned is included in 'Interest and similar income' in the income statement. Allowance for impairment is reported in the balance sheet line 'Risk provisions for loans and advances'. Losses arising from impairment are recognised in the income statement among 'Risk provisions for loans and advances'.

(ix) Deposits and other liabilities
Financial liabilities which are not held for trading are reported in the lines 'Deposits by banks', 'Customer deposits' 'Debt securities in issue' or 'Subordinated liabilities'. Such liabilities are measured at amortised cost, except those which are measured at fair value through profit or loss. These line items also include financial liabilities which are designated at fair value through profit or loss. Interest expenses incurred are reported in the line 'Interest and similar expenses' in the income statement.

(x) Reclassification of financial assets
Effective from 1 July 2008, an entity may reclassify, in certain circumstances, non-derivative financial assets out of the 'Held-for-trading' category into the 'Available-for-sale', 'Loans and receivables', or 'Held-to-maturity' categories. From this date it may also reclassify, in certain circumstances, financial instruments out of 'Available-for-sale' category into the 'Loans and receivables' category. However, Erste Group did not make use of this option.

Derecognition of financial assets and financial liabilities

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:
- the rights to receive cash flows from the asset have expired; or
- the entity has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement;
  and either:
  - the entity has transferred substantially all the risks and rewards of the asset, or
  - the entity has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

Repurchase and reverse repurchase agreements, securities lending and borrowing

Securities sold under agreement to repurchase at a specified future date are not derecognised from the balance sheet as Erste Group retains substantially all the risks and rewards of ownership. Such transactions are also known as 'repos' or 'sale and repurchase agreement'. The corresponding cash received is recognised in the balance sheet as an asset with a corresponding obligation to return it as a liability in the respective lines 'Deposits by banks' or 'Customer deposits' reflecting the transaction's economic substance as a loan to Erste Group. The difference between the sale and repurchase prices is treated as interest expense and recorded in the line 'Interest and similar expenses' and is accrued over the life of agreement. Financial assets transferred out by Erste Group under repurchase agreements remain on the group's balance sheet and are measured according to the rules applicable to the respective balance sheet item.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the balance sheet. Such transactions are also known as 'reverse repos'. The consideration paid is recorded in the balance sheet in the respective lines 'Loans and advances to credit institutions' or 'Loans and advances to customers', reflecting the transaction's economic substance as a loan by Erste Group. The difference between the purchase and resale prices is treated as interest income and recorded in line 'Interest and similar income' and is accrued over the life of the agreement.
In securities lending transactions, the lender transfers ownership of securities to the borrower on the condition that the borrower will retransfer, at the end of the agreed loan term, ownership of instruments of the same type, quality and quantity and will pay a fee determined by the duration of the lending. Similarly to 'reverse repos', the transfer of the securities to counterparties via securities lending does not result in derecognition unless the risks and rewards of ownership are also transferred. Securities borrowed are not recognised on the balance sheet, unless they are then sold to third parties.

Determination of fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction.

The best indication of the fair value of financial instruments is provided by quoted market prices in an active market. Where quoted market prices in an active market are available, they are used to measure the financial instrument (level 1 of fair value hierarchy). The measurement of fair value at Erste Group is based primarily on external sources of data (stock market prices or broker quotes in highly liquid market segments). Where no market prices are available, fair value is determined on the basis of valuation models that are based on observable market information (level 2 of fair value hierarchy). In some cases, the fair value of financial instruments can be determined neither on the basis of market prices nor of valuation models that rely entirely on observable market data. In this case, individual valuation parameters not observable in the market are estimated on the basis of reasonable assumptions (level 3 of fair value hierarchy).

Erste Group employs only generally accepted, standard valuation models. Net present values are determined for linear derivatives (e.g. interest rate swaps, cross currency swaps, foreign exchange forwards and forward rate agreements) by discounting the replicating cash flows. Plain vanilla OTC options (on shares, currencies and interest rates) are valued using option pricing models of the Black-Scholes class; complex interest rate derivatives are measured using Hull-White and/or Brace Gatorek Musiela (BGM) models. Erste Group uses only valuation models which have been tested internally and for which the valuation parameters (such as interest rates, exchange rates and volatility) have been determined independently.

Impairment on financial assets

Erste Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

(i) Financial assets carried at amortised cost
If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset`s carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

In case of loans and advances, any impairment is reported in the allowance account referred to as 'Risk provisions for loans and advances' in the balance sheet and the amount of the loss is recognised in the income statement line 'Risk provisions for loans and advances'. Risk provisions for loans and advances include specific risk provisions for loans and advances for which objective evidence of impairment exists. In addition, risk provisions for loans and advances include portfolio risk provisions for which no objective evidence of impairment exists in single observation. For held-to-maturity investments impairment is recognised directly by reduction of asset account and in the income statement line 'Result from financial assets – held to maturity'. Interest income for individually impaired assets continues to be accrued on the reduced carrying amount and is accrued using the interest rate used to discount the future cash flows for the purpose of measuring the impairment loss. This interest income is recorded as part of 'Interest and similar income'.

Loans together with the associated allowance are derecognised when there is no realistic prospect of future recovery and all collaterals have been realised in Erste Group.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account in case of loans and advances. In case of held-to-maturity investments the carrying amount is increased or decreased. Decreases of impairment losses are reported in the same line of income statement as the impairment loss itself.

(ii) Available-for-sale financial investments
In case of debt instruments classified as available-for-sale, Erste Group assesses individually whether there is objective evidence of impairment based on the same criteria as for financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement. On recognising impairment any amount of losses retained in other comprehensive income item 'Available for sale reserve' is reclassified to the income statement and shown as impairment loss in 'Result from financial assets – available for sale'. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to credit event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through profit or loss in the line 'Result from financial assets – available for sale'. Impairment losses and their reversals are recognised directly against the assets in the balance sheet.

In case of equity investments classified as available-for-sale, objective evidence also includes a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the profit or loss is removed from'Available for sale reserve' in other comprehensive income and is reclassified and shown as impairment loss in 'Result from financial assets – available for sale'. Impairment losses on equity investments are not reversed through the income statement; increases in the fair value after impairment are recognised directly in other comprehensive income. Impairment losses and their reversals are recognised directly against the assets in the balance sheet.

(iii) Off-balance-sheet exposures
Provisions for off-balance sheet transactions (particularly warranties and guarantees as well as other credit commitments) are included in the balance sheet line 'Provisions', the related expense is reported in the income statement in line 'Risk provisions for loans and advances'.

Hedge accounting
Erste Group makes use of derivative instruments to manage exposures to interest rate risk and foreign currency risk. At inception of the hedge relationship, the Bank formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship. Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%. Exact conditions for particular types of hedges applied by Erste Group are internally specified.

(i) Fair value hedges
Fair value hedges are employed to reduce market risk. For designated and qualifying fair value hedges, the change in the fair value of a hedging derivative is recognised in profit or loss. Meanwhile, the change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in profit or loss.

If the hedging instrument expires or is sold, terminated or exercised, or when the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. In this case the fair value adjustment of the hedged item shall be amortised to profit or loss till maturity of the financial instrument.
(ii) Cash flow hedges
Cash flow hedges are used to eliminate uncertainty in the future cash flows in order to stabilise net interest income. For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income and reported under the 'Cash flow hedge reserve'. The ineffective portion of the gain or loss on the hedging instrument is recognised in profit or loss in 'Net trading result'. When the hedged cash flow affects the profit or loss, the gain or loss on the hedging instrument is reclassified into the corresponding income or expense line in income statement.

When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. In this case the cumulative gain or loss on the hedging instrument that has been recognised in other comprehensive income shall remain separately in 'Cash flow hedge reserve' until the transaction occurs.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Leasing

Lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. Finance lease of Erste Group is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Remaining lease agreements in Erste Group are classified as Operating lease.

Erste Group as a lessor
The lessor in the case of finance lease reports a receivable against the lessee amounting to present value of the contractually agreed payments taking into account any residual value. In the case of operating leases the leased asset is reported by the lessor in 'property and equipment' or in 'investment property' and is depreciated in accordance with the principles applicable to the assets involved. Lease income is recognised on a straight-line basis over the lease term.

Lease agreements in which Erste Group is the lessor almost exclusively represent finance leases.

Erste Group as a lessee
From the side of a lessee, Erste Group has not entered into any leases fulfilling conditions of finance leases. Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight line basis over the lease term.

Property and equipment

Property and equipment – land and buildings, furniture and equipment (including office furniture and equipment under operating leases where the Erste Group is the lessor) is measured at cost less accumulated depreciation and accumulated impairment in value.
Borrowing costs for qualifying assets are capitalised into the costs of property and equipment.

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

	Useful life in years
Buildings	20-50
Office furniture and equipment	5-20
Computer hardware	4-5

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in ‘Other operating result' in the statement of comprehensive income in the year the asset is derecognised.

Business combinations and goodwill

Business combinations are accounted for using the purchase method of accounting. This involves recognising identifiable assets (including previously unrecognised intangible assets such as customer relationships and brand) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair value of the identifiable net assets acquired, the discount on acquisition is recognised in profit or loss in the line ‘Other operating result’ in the year of acquisition.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised but reviewed for impairment annually. Any determined impairment is recognised in profit or loss.

An annual impairment test is carried out for all cash-generating units (CGU) to review the value of existing goodwill. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. At Erste Group, all business segments distinguished in the segment reporting in the financial statements are defined as CGUs. Separate legal entities within these segments are treated as separate CGUs.

The calculation of the expected cash flows is based on the normalised projected earnings of the CGU. As a rule, the basis for the normalised projected earnings is the reported pre-tax profit from continuing operations in local currency before deduction of consolidation items and before financing costs for the CGU.

To determine the net present values, future cash flows are discounted at a pre-tax discount rate (source: European Central Bank). The planning period consists of a detailed forecast period (typically 3 years, or longer if warranted by exceptional circumstances) and a rough planning period (represented by a perpetuity calculated based on the latest available detailed planning period). Based on macroeconomic parameters for the perpetuity a growth rate of 2% is applied.

The discount rate used is a long-term risk-free rate before taxes in local currency, to which country- and industry-specific risk premiums are added. These risk premiums do not reflect risks for which future cash flows have already been adjusted. The discount rate used is pre-tax. The discount rates currently used range from 9.42% to 17.25%. (2008: 10.22% to 15.13%)

Based on the above parameters, the CGU’s value-in-use is calculated in euros as of each November. Currency translation into euros is based on the exchange rate then prevailing. Where available, the CGU’s fair value less costs to sell is determined, based on recent transactions, market quotations, appraisals, etc. The higher of value in use and fair value less costs to sell is the recoverable amount.

The subsidiary’s proportionate or full recoverable amount (calculated as outlined above) is compared, respectively, to the sum of proportionate or full equity in the subsidiary, and goodwill. If the proportionate or full recoverable amount is less than the sum of proportionate or full equity and goodwill, the difference is recognised as an impairment loss in the line ‘Other operating result’, in the following order. The impairment loss is allocated first to writing down the CGU’s goodwill. Any remaining impairment loss reduces the carrying amount of the CGU’s other assets, though not to an amount less than their fair value less cost to sell. There is no need to recognise an impairment loss if the proportionate or full recoverable amount of the CGU is higher than or equal to the sum of proportionate or full equity and goodwill. Once recognised, an impairment loss for goodwill cannot be reversed in later periods.

Investment properties

Investment property is property (land and building) held for the purpose of earning rental income or for capital appreciation. In case of partial own use, the property is investment property only if the owner-occupied portion is insignificant. Investment properties are measured at cost less accumulated straight-line depreciation based on useful life. Any impairment losses are recognised in the line ‘Other operating result’as required. If the reasons which led to the impairment cease to apply, the previously recognised impairment loss is reversed to no more than the asset’s carrying amount if no impairment loss had been recognised.

The useful life of investment properties is equal to those of property and equipment.

Assets held for sale and liabilities associated with assets held for sale

Non-current assets are classified as held for sale if they can be sold in their present condition and the sale is highly probable within 12 months of classification as held for sale. Assets classified as held for sale are reported under the balance sheet line '"Assets held for sale". Non-current assets that are classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

A disposal group is a group of assets, possibly with associated liabilities, which an entity intends to dispose of in a single transaction. The measurement basis as well as the criteria for classification as – held-for-sale, are applied to the group as a whole. Assets being part of a disposal group are reported under the balance sheet line 'Assets held for sale'. Liabilities associated with assets held for sale, that are liabilities which form part of a disposal group, are disclosed under the balance sheet line 'Liabilities associated with assets held for sale'.

Intangible assets

In addition to goodwill Erste Group's other intangible assets include computer software and customer relationships, brand and other intangible assets. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank.

Costs of internally generated software are capitalised if Erste Group can demonstrate technical feasibility and intention of completing the software, ability to use it, how it will generate probable economic benefits, availability of resources and ability to measure reliably the expenditures. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. In the case of Erste Group these are brands, customer relationships and distribution network and they are capitalised on acquisition if they can be measured with sufficient reliability.

Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method are reviewed at least at each financial year-end and adjusted if necessary. The amortisation expense on intangible assets with finite lives is recognised in the statement of comprehensive income under 'General Administrative expenses' except for amortisation of customer relationships which is reported in 'Other operating result'.

Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

	Useful life in years
Computersoftware	4 – 6
Customer relationships	10 – 20
Distribution network	5.5

Brands are not amortised as they are assumed to have an indefinite useful life. They are annually tested for impairment within cash generating units to which they belong. In the event of impairment, impairment losses are recognised in 'Other operating result'. Each period brands are reviewed whether current circumstances continue to support the conclusion about indefinite life.

Financial guarantees

In the ordinary course of business, Erste Group gives financial guarantees, consisting of some types of letters of credit and guarantees. According to IAS 39 financial guarantee is a contract that requires the guarantor to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with original or modified terms of a debt instrument. If Erste Group is in position of a guarantee holder the financial guarantee is not recorded in the balance sheet but is taken into consideration as collateral when determining impairment of the guaranteed asset.

Erste Group as a guarantor recognises financial guarantees in the financial statements. Financial guarantees are initially measured at fair value as soon as Erste Group becomes a contracting party, i.e., when the guarantee offer is accepted. Generally the initial measurement is the premium received for a guarantee. If no premium is received at contract inception the fair value of a financial guarantee for which the premium is not received at contract inception is nil, as this is the amount at which the transaction could be settled in a standalone arm's length transaction with an unrelated party. Subsequent to initial recognition the financial guarantee contract is reviewed for possible requirement for provisions under IAS 37.

The premium received is recognised in the statement of comprehensive income in 'Net fee and commission income' on a straight line basis over the life of the guarantee.

Defined employee benefit plans

Defined employee benefits plans operated by Erste Group, are for pensions, severance and jubilee benefits.
The defined benefit pension plans relate only to retired employees. The pension obligations for current employees were transferred to external pension funds in previous years. Remaining with Erste Group is a defined-benefit obligation for entitlements of former employees who were already retired as of 31 December 1998 before the pension reform took effect, and for those former employees who retired only in 1999 but remained entitled to a direct pension from Erste Group under individual agreements; and for entitlements to resulting survivor pensions.

Severance benefit obligations exist against Austrian employees who entered the group's employment before 1 January 2003. The severance benefit is a one-time remuneration to which employees are entitled when their employment relationship ends. The entitlement to this severance payment arises after three years of employment.

Defined benefit plans include also jubilee benefits to which Austrian employees are entitled. Jubilee payments (long service/loyal-service payments) are remuneration tied to the length of employees' service to an employer. The entitlement to jubilee benefits is established by collective agreement, which defines both the conditions and amount of the entitlement. In Central European subsidiaries further defined benefit plans exist.

Obligations resulting from defined employee benefit plans are determined using the projected unit credit method. Future obligations are determined based on actuarial expert opinions. The calculation takes into account not only those salaries, pensions and vested rights to future pension payments known at the balance sheet date, but also anticipated future rates of increase in salaries and pensions.

As of 31 December 2009, for all domestic subsidiaries, the most important actuarial assumptions used in the computation were adjusted to reflect the situation at year-end 2009. Thus, the actuarial calculation of pension, severance and jubilee benefit obligations is based on a discount rate (long-term capital market interest rate) of 5.0% per annum (previously: 5.5%). The statutory increase in pension benefits is assumed to be 2.5% per year (previously: 3.0%) and severance and jubilee benefits are calculated based on an expected annual increase of 3.8% per year in salaries (previously: 4.3%). Obligations were calculated in accordance with the Pagler & Pagler mortality tables titled 'AVÖ 2008 P – Rechnungsgrundlagen für die Pensionsversicherung'. The expected retirement age for each employee was individually calculated on the basis of the changes set out in the Budget Implementation Act of 2003 (Austrian Federal Law Gazette Vol. I No. 71/2003) regarding the increase in the minimum retirement age. The currently applicable legislation on the gradual raising of the retirement age for men and women to 65 was taken into consideration. For Central European subsidiaries the mandatory retiring age as well as the discount rates which range from 4.27% (previously: 4.8%) to 7.5% (previously: 7.0%) depending on the country is used.

With the sale of s Versicherung, the assets that had been transferred to s Versicherung to cover obligations for severance and jubilee benefits became plan assets according to IAS 19. For the employees involved, insurance policies were issued under a group insurance contract. These policies, so-called 'Direktversicherungen', represent occupational insurance covering employees for the event that they cease to be employed by Erste Group while entitled to severance or jubilee benefits. The premium is paid by Erste Group; the insured is the entitled employee. As qualifying insurance policies, these occupational insurance policies represent plan assets.

Based on actually realized returns of portfolios and forecasts on the development of assessment included in these portfolios, at 31 December 2009 an interest rate of 5% (2008: 5%) was assumed for the expected return on plan assets.

The liability recognised from a defined-benefit plan represents the present value of the defined benefit obligation less the fair value of the plan assets available for the direct settlement of obligations. For all plans present value of the obligation exceeds the fair value of plan assets. Resulting defined benefit liability is reported in the balance sheet line ‘Other provisions’. At Erste Group the plan assets consist of qualifying insurance policies purchased to back severance and jubilee benefit provisions.

Actuarial gains or losses of pension and severance benefit obligations and of plan assets available to settle these obligations are recognised directly in equity for the period in which they occur. Actuarial gains or losses of provisions for jubilee benefits are recognised in profit or loss in the period during which they occur.

Provisions

In addition to provisions for long-term employee benefits, provisions are recognised when the group has a present obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. In the balance sheet, provisions are reported under the line ‘Other provisions’. They include credit risk provisions for off-balance-sheet transactions (particularly warranties and guarantees) as well as provisions for litigations and restructuring. Expenses or income from release relating to credit risk provisions for off-balance-sheet items are presented in income statement in the line ‘Risk provisions for loans and advances’, all other expenses or income from releases related to provisions are reported in the line ‘Other operating result’.

Share-based payment transactions

Erste Group grants shares and share options to employees and managers as compensation for their services, under the employee share ownership plan (ESOP) and the management share option (MSOP) plans. Both take the form of equity-settled share-based payment transactions.

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. Under ESOP, Erste Group shares are offered to employees at a discounted price; therefore, the fair value results from the discount at which employees purchase Erste Group shares. Any expense incurred from this fair value is immediately recognised in personnel expenses under the line ‘General administrative expenses’. Under MSOP, Erste Group share options are granted to managers and other key personnel. For MSOP initial fair value of the options granted is determined by means of generally accepted option pricing models (Black and Scholes, Binomial model). Expense from this fair value is spread over the vesting periods (the period between the grant date and the first permitted exercise date). Expense is recognised in personnel expenses under the line ‘General administrative expenses’ together with a corresponding increase in equity.

Taxes

(i) Current tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted by the balance sheet date.

(ii) Deferred tax

Deferred tax is provided on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax losses can be utilised. Deferred taxes – neither deferred tax assets nor liabilities – are not recognised on temporary differences arising from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. For the subsidiaries local tax environment applies.

Deferred tax relating to items recognised in other comprehensive income is also recognised in other comprehensive income and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxation authority.

Own shares and contracts on own shares

Own equity instruments of Erste Group which are acquired by it or by any of its subsidiaries (treasury shares) are deducted from equity. Consideration paid or received on the purchase, sale, issue or cancellation of Erste Group's own equity instruments is recognised directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of own equity instruments.

Fiduciary assets

The group provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity are not reported in the financial statements, as they are not the assets of the group.

Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by Erste Group's shareholders.

Regaring dividends on participation capital see note 34.

Recognition of income and expenses and description of income statement line items

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. As regards the lines reported in the income statement their description and revenue recognition criteria are following:

(i) Net interest income

Interest and similar income mainly includes interest income in the narrow sense on loans and advances to credit institutions and customers, on balances with central banks and on bonds and other interest-bearing securities. Interest and similar expenses mainly include interest paid on deposits by banks and customer deposits, deposits of central banks, debt securities in issue and subordinated debt (including hybrid issues).

For all financial instruments measured at amortised cost, interest-bearing financial assets classified as available for-sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the effective interest rate (EIR). The calculation includes fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. Interest income from individually impaired loans is calculated by applying the original effective interest rate used to discount the estimated cash flows for the purpose of measuring the impairment loss.

Also reported in interest and similar income is current income from shares and other equity-related securities (especially dividends), income from other investments in companies and non-consolidated subsidiaries categorised as available-for-sale. Such dividend income is recognised when the right to receive the payment is established.
Net interest income also includes rental from investment properties. As such rental agreements constitute operating leases rental income is recognised on straight-line basis over the lease term.

Income from associates recorded by applying the equity method (share of profit or loss in associates) is also included in the total of net interest income. Impairment losses, reversal of impairment losses, and realised gains and losses on investments in associates accounted for at equity are reported in 'Other operating result'.

(ii) Risk provisions for loans and advances

This item includes allocations to and releases of specific and portfolio risk provisions for loans and advances for both on-balance-sheet and off-balance-sheet transactions. Also reported in this item are direct write-offs of loans and advances as well as recoveries on loans written off.

(iii) Net fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. It includes income and expenses mainly from fees and commission payable or receivable for payment transfers, securities business and lending business, as well as from insurance brokerage, building society brokerage and foreign exchange transactions.

Fees earned for the provision of services over a period of time are accrued over that period. These fees include guarantee fees, commission income from asset management, custody and other management and advisory fees.

Fee income earned from providing transaction services, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction.

(iv) Net trading result
Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense and dividends on financial assets and financial liabilities classified as 'Held-for-trading'. It also includes any ineffectiveness recorded in hedging transactions as well as foreign exchange gains and losses.

(v) General administrative expenses
General administrative expenses represent the following expenses accrued in the reporting period: personnel and other administrative expenses, as well as depreciation and amortisation. Not included are any amortisation of customer relationships and impairment of goodwill.
Personnel expenses include wages and salaries, bonuses, statutory and voluntary social security contributions, staff-related taxes and levies (including amounts allocated to and released from provisions). They also include expenses and income for severance payments, pension and jubilee provisions (covering service cost, interest cost, expected return on plan assets and actuarial gains and losses for jubilee provisions).

Other administrative expenses include information technology expenses, expenses for office space, office operating expenses, advertising and marketing, expenditures for legal and other consultants as well as sundry other administrative expenses.

(vi) Other operating result
Other operating result reflects all other income and expenses not attributable to Erste Group's ordinary activities. This includes especially impairment losses or any reversal of impairment losses as well as results on the sale of property and equipment, amortisation and impairment of customer relationships, any impairment losses on goodwill, and impairment losses (and any reversal of impairment losses) on other intangible assets. In addition, other operating result encompasses the following: expenses for other taxes and for deposit insurance contributions; income from the release of and expenses for allocations to other provisions; impairment losses (and their reversal if any) on investments in associates accounted for at equity and realised gains and losses from the disposal of equity-accounted investments.

Significant accounting judgements, assumptions and estimates

The consolidated financial statements contain amounts that have been determined on the basis of judgements and by use of estimates and assumptions. The estimates and assumptions used are based on historical experience and other factors, such as planning as well as expectations and forecasts of future events that are currently deemed to be reasonable. As a consequence of the uncertainty associated with these assumptions and estimates, actual results could in future periods lead to adjustments in the carrying amounts of the related assets or liabilities. The most significant use of judgment, assumption and estimates are as follows:

Going concern
The Erste Group's management has made an assessment of Erste Group's ability to continue as a going concern and is satisfied that Erste Group has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon Erste Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. Disclosures for valuation models, fair value hierarchy and fair values of financial instruments can be found in the Note 43) Fair value of financial instruments.

Impairment on financial assets
Erste Group reviews its financial assets not measured at fair value through profit or loss at each balance sheet date to assess whether an impairment loss should be recorded in the income statement. In particular, it is required to determine whether there is objective evidence of impairment as a result of loss event occurring after initial recognition, to estimate the amount and timing of future cash flows when determining the impairment loss. Disclosures concerning impairment are in the note 41) Risk Management in the part Credit risk – Non-performing assets and risk provisions. Development of loan loss provisions is described in the note 16) Risk provisions for loans and advances.

Impairment on non-financial assets
Erste Group reviews its non-financial assets at each balance sheet date to assess whether there is an indication of impairment loss which should be recorded in the income statement. This is especially relevant for cash generating units which contain goodwill which have to be tested for impairment annually. Judgement and estimates are required to determine the value in use by estimating the timing and amount of future expected cash flows and the discount rates. Assumptions and estimates used for impairment on non-financial assets calculations are described in the part Business combination and goodwill of the accounting policies.

Deferred tax assets
Deferred tax assets are recognised in respect of tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies. Disclosures concerning deferred taxes are in the note 23) Tax assets and liabilities.

Defined benefit obligation plans
The cost of the defined benefit pension plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Assumption and estimates used for the defined benefit obligation calculations can be found in the part Defined benefit plans of accounting policies. Quantitative data for long-term employee provisions are in the note 30) Other provisions.

Leases
From Erste Group point of view as a lessor judgement is required to distinguish whether the lease is finance or operating lease based on transfer of substantially all the risk and rewards from the lessor to the lessee.

c) APPLICATION OF AMENDED AND NEW IFRS/IAS

Effective standards and interpretations
The accounting policies adopted are consistent with those used in the previous financial year except that Erste Group has adopted the following standards, amendments and interpretations which became effective for financial years beginning on or after 1 January 2009.

IFRS 8 Operating Segments
The standard was issued in November 2006 and became effective for financial years beginning on or after 1 January 2009. This standard requires disclosure of information about an entity's operating segments based on internal point of view (i.e. based on information regularly reviewed by the entity's chief operating decision maker, so-called management approach) and replaced the requirement to determine primary and secondary reporting segments. Erste Group applied IFRS 8 early in 2008.

Amendment to IFRS 2 Share-based Payments – Vesting Conditions and Cancellations
This amendment to IFRS 2 Share-based payments was issued in January 2008 and became effective for financial years beginning on or after 1 January 2009. The Standard restricts the definition of 'vesting condition' to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. Application of the amendment does not have any significant impact on Erste Group´s financial statements.

Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements, – Puttable Financial Instruments and Obligations Arising on Liquidation
The amendment to IAS 32 was issued in February 2008 and became effective for financial years beginning on or after 1 January 2009. It requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if specified criteria are met. The amendments to IAS 1 require disclosure of certain information relating to puttable instruments classified as equity. Application of the amendments do not have any significant impact on Erste Group´s financial statements.

IAS 1 Presentation of Financial Statements (Revised 2007)
The standard was issued in September 2007 and became effective for financial years beginning on or after 1 January 2009. The standard replaces previous version of IAS 1 Presentation of Financial Statements (revised in 2003 as amended in 2005). The Standard separates owner and non-owner changes in equity. In addition, the Standard introduces the statement of comprehensive income, which presents income and expense items recognised in profit or loss, together with all other items of recognised income and expense, either in one single statement, or in two linked statements. The changes introduced by the revision are presentational in nature. Erste Group decided to present the statement of comprehensive income in the form of two statements.

IAS 23 Borrowing Costs (revised 2007)
This amendment was issued in March 2007 and became effective for financial years beginning on or after 1 January 2009. The standard replaces previous version of IAS 23 Borrowing costs (revised 2003). The main change brought by this amendment is mandatory capitalisation of borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. Erste Group applied the revised standard early in 2008. As the standard required prospective application it did not result in retrospective changes.

Amendments to IFRS 7 Improving Disclosures about Financial Instruments
Amendment was issued in March 2009 with effectiveness for financial years beginning on or after 1 January 2009. The amendment introduced obligatory fair value hierarchy disclosures for financial instruments measured at fair value in the balance sheet. It also brought changes for liquidity disclosure requirements. Amendments resulted in new disclosures.

IFRIC 13 Customer Loyalty Programmes
This IFRIC was issued in June 2007 and became effective for periods beginning on or after 1 July 2008. This interpretation requires the fair value of customer loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted. Application of this IFRIC does not have any significant impact on Erste Group´s financial statements.

IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
IFRIC 14 was issued in July 2007 and became effective for financial years beginning on or after 1 January 2009. It addresses issues when refunds or reductions in future contributions should be regarded as available for recognition of defined benefit asset, how a minimum funding requirement might affect the availability of reductions in future contributions and when a minimum funding requirement might give rise to liability. Application of this IFRIC does not have any significant impact on Erste Group´s financial statements.

IFRIC 15 Agreements for the Construction of Real Estate
This IFRIC was issued in July 2008 and became effective for financial years beginning on or after 1 January 2009. It addresses whether the agreements for construction of real estates are treated as a construction contract under IAS 11 or as a construction of owner occupied property under IAS 18. It also addresses when revenue from the construction should be recognised. Application of the amendment does not have any significant impact on Erste Group´s financial statements. Application of this IFRIC does not have any significant impact on Erste Group´s financial statements.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation
IFRIC 16 is effective for financial years beginning on or after 1 October 2008. The Interpretation addresses various issues which are relevant for entities that hedge the foreign currency risk arising from their net investments in foreign operations and wish to qualify for hedge accounting in accordance with IAS 39. Application of this IFRIC does not have any significant impact on Erste Group´s financial statements.

Standards and interpretations not yet effective

IFRS 3 (Revised 2008) Business Combinations and IAS 27 (Revised 2008) Consolidated and Separate Financial Statements
The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. IFRS 3 (Revised 2008) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

IAS 27 (Revised 2008) requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Application of the revised standards will become mandatory for the Bank's 2010 financial statements. The changes will affect business combinations and changes in ownership interest occurring in the future financial periods. Erste Group decided not to apply the standards before they become effective.

Amendment to IAS 39 Financial Instruments: Recognition and Measurement' – Eligible Hedged Items
This amendment to IAS 39 was issued in July 2008 and becomes effective for financial years beginning on or after 1 July 2009. The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for hedge designation should be applied in particular situations. The amendment is not expected to have material effect on financial statements of Erste Group. Erste Group decided not to apply the amendment before it becomes effective.

Amendments to IAS 39 and IFRIC 9 Embedded derivative

Amendments were issued in March 2009 and are effective for financial years beginning on or after 1 July 2009. The IFRIC 9 amendment clarifies that assessment whether embedded derivative has to be separated is done on the date when entity becomes party of the contract. The IAS 39 clarifies that if entity is not able to measure separately embedded derivative on reclassification of the hybrid instrument out of fair value through profit or loss category then the entire hybrid contract must not be reclassified. The amendments are not expected to have material effect on financial statements of Erste Group. Erste Group decided not to apply the amendments before they become effective.

Improvements to IFRSs

In April 2009, the IASB issued a set of non-urgent but necessary amendments to various standards. None of the amendments is mandatory for 2009 financial years. The particular amendments are effective for financial years beginning either on or after 1 July 2009 or on or after 1 January 2010. Erste Group has decided not to early adopt the amendments and does not expect that their application will have significant effect.

IFRS 1 (revised 2008) First-time Adoption of International Financial Reporting Standards

The revised standard was issued in November 2008 and becomes effective for financial years beginning on or after 1 July 2009. The objective of the revision is to improve the structure of the Standard – no new or revised technical material has been introduced. The standard will have no effect on the Erste Group 2010 financial statements as Erste Group is not the first time adopter of IFRSs.

IAS 24 (revised 2009) Related party disclosures

The revised standard was issued in November 2009 and becomes effective for financial years beginning on or after 1 January 2011. The revised version simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. The amendment is not expected to have material effect on financial statements of Erste Group. Erste Group decided not to apply the revised standard before it becomes effective.

IFRS 9: Financial Instruments

The new IFRS 9 standard was issued in November 2009 and becomes effective for financial years beginning on or after 1 January 2013. Earlier application is permitted. However EU has not endorsed the standard yet therefore it is not applicable for the financial year 2009 for EU entities.

In the current version of IFRS 9 the scope is limited only to financial assets. It introduces two classification criteria for financial assets: 1. entity´s business model for managing the financial assets and 2. the contractual cash flow characteristics of the financial assets. As a result, a financial asset is measured at amortised cost only if both conditions are met: a) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets are measured at fair value with changes recognised in profit or loss.

Based on changes in the business model an entity shall reclassify all affected assets from fair value to amortised cost category or vice versa.

IFRS 9 eliminates the concept of embedded derivatives. Application of the classification criteria results in the fact that all structured financial instruments have to be fair valued (except for narrowly defined cases e.g. for interest rate caps or floors, prepayment, put, call, prolongation options).

For equity instruments which are not held for trading, an entity may make an irrevocable election at initial recognition to measure them at fair value with changes recognised in other comprehensive income. Gains and losses once recognised in other comprehensive income are never recycled into profit or loss even when the equity instruments are sold.

Tranches resulting from securitisation (referred to as contractually-linked instruments) are subject to a ´look through´ approach in order to determine if they are measured at fair value or amortised cost. It means that risk and cash flow characteristics of the underlying pool of instruments and the tranches are compared according to the defined criteria. If the look-through approach is not possible, tranches have to be fairly valued.

Amendment to IFRS 2 Group Cash-settled Share-based Payment Transactions
This amendment to IFRS 2 was issued in June 2009 and is effective for financial years beginning on or after 1 January 2010. The amendment clarified the scope of IFRS 2. An entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash. The term 'group' has the same meaning as in IAS 27, i.e. includes only parent and its subsidiaries. The amendment is not expected to have material effect on financial statements of Erste Group. Erste Group decided not to apply the amendment before it becomes effective.

Amendment to IFRS 1 Additional Exemptions for First-time Adopters
This amendment to IFRS 1 was issued in July 2009 and is effective for financial years beginning on or after 1 January 2010. It addresses the retrospective application of IFRSs to particular situations and is aimed at ensuring that entities applying IFRSs will not face undue cost or effort in the transition process. The standard will have no effect on the Erste Group 2010 financial statements as Erste Group is not first time adopter of IFRSs.
Amendment to IAS 32 – Classification of Rights Issues
This amendment to IAS 32 was issued in October 2009 and is effective for financial years beginning on or after 1 February 2010. The amendment addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated. The amendment is not expected to have material effect on financial statements of Erste Group. Erste Group decided not to apply the amendment before it becomes effective.

IFRIC 17 Distributions of Non-cash Assets to Owners
IFRIC 17 was issued in November 2008 and is effective for financial years beginning on or after 1 July 2009. It addresses various issues which arise for entity when it distributes its equity, usually in the form of dividends, to the owners by using non-cash assets. As Erste Group does not pay dividends in the form of non-cash assets, therefore, the IFRIC will have no effect on Erste Group´s financial statements. Erste Group decided not to apply the interpretation before it becomes effective.

IFRIC 18 Transfers of Assets from Customers
IFRIC 18 was issued in January 2009 and is effective for financial years beginning on or after 1 July 2009. It clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant, and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). It also clarifies the accounting treatment when the entity receives cash from a customer that must be used only to acquire or construct the item of property, plant, and equipment in order to connect the customer to a network or provide the customer with ongoing access to a supply of goods or services (or to do both). Erste Group is not involved in such a type of transaction, and therefore, the IFRIC will have no effect on its financial statements. Erste Group decided not to apply the interpretation before it becomes effective.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
IFRIC 19 was issued in November 2009 and is effective for financial years beginning on or after 1 July 2010. It clarifies the requirements of IFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The equity instruments issued are measured at their fair value. The difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued is included in the entity's profit or loss for the period. IFRIC 19is expected to have no effect on financial statements of Erste Group. Erste Group decided not to apply the interpretation before it becomes effective.

Amendment to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
The amendment to IFRIC 14 was issued in November 2009 and is effective for financial years beginning on or after 1 January 2011. It applies in the limited circumstances when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendment permits such an entity to treat the benefit of such an early payment as an asset. The amendment will have no effect on Erste Group financial statements. Erste Group decided not to apply the interpretation before it becomes effective.

D. NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME AND THE BALANCE SHEET OF ERSTE GROUP

1) Net interest income

in EUR million	2009	2008
Interest income		
Lending and money market transactions with credit institutions	1,691.3	1,886.7
Lending and money market transactions with customers	7,128.5	8,120.4
Bonds and other interest-bearing securities	1,139.4	1,423.9
Current income		
Equity-related securities	114.0	130.2
Investments		
Non-consolidated subsidiaries	8.6	13.4
Other investments	13.7	21.6
Investment properties[1)]	78.1	82.2
Other interest and similar income	16.7	26.9
Interest and similar income	**10,190.3**	**11,705.3**
Interest income from financial assets – at fair value through profit or loss	81.9	239.2
Total interest and similar income	**10,272.2**	**11,944.5**
Interest expenses		
Deposits by banks	(1,300.2)	(2,105.9)
Customer deposits	(2,431.4)	(3,259.1)
Debt securities in issue	(986.4)	(1,292.5)
Subordinated liabilities	(333.8)	(389.0)
Other	(6.7)	(6.4)
Interest and similar expenses	**(5,058.5)**	**(7,052.9)**
Interest expenses from financial assets – at fair value through profit or loss	(5.5)	0.0
Total interest and similar expenses	**(5,064.0)**	**(7,052.9)**
Income from associates accounted for at equity	**12.7**	**21.5**
Total	**5,220.9**	**4,913.1**

1) Rental income from investment properties which are in accordance with IAS 40 totalled EUR 85.4 m (2008 EUR 90.6 m)

2) Risk provisions for loans and advances

in EUR million	2009	2008
Allocation to risk provisions for loans and advances	(2,759.8)	(1,720.3)
Release of risk provisions for loans and advances	750.6	668.8
Direct write-offs of loans and advances	(81.2)	(80.7)
Recoveries on written-off loans and advances	33.8	60.8
Total	**(2,056.6)**	**(1,071.4)**

3) Net fee and commission income

in EUR million	2009	2008
Lending business	317.1	375.5
Payment transfers	816.4	855.2
Card business	183.8	196.7
Securities business	377.8	451.3
Investment fund transactions	169.6	209.0
Custodial fees	27.4	31.1
Brokerage	180.8	211.2
Insurance brokerage	95.5	89.2
Building society brokerage	37.7	42.5
Foreign exchange transactions	25.1	37.2
Investment banking business	15.1	16.7
Other	88.1	103.5
Total	**1,772.8**	**1,971.1**

4) Net trading result

in EUR million	2009	2008
Securities and derivatives trading	303.7	(141.1)
Foreign exchange transactions	281.4	255.8
Total	**585.1**	**114.7**

5) General administrative expenses

in EUR million	2009	2008
Personnel expenses	(2,227.5)	(2,313.8)
Other administrative expenses	(1,202.3)	(1,313.1)
Depreciation and amortisation	(377.6)	(375.0)
Total	**(3,807.4)**	**(4,001.9)**

Personnel expenses

in EUR million	2009	2008
Wages and salaries	(1,661.6)	(1,710.0)
Compulsory social security contributions	(450.6)	(461.3)
Long-term employee provisions	(71.0)	(95.0)
Other personnel expenses	(44.3)	(47.5)
Total	**(2,227.5)**	**(2,313.8)**

Personnel expenses include expenses of EUR 66.9 million (2008: EUR 46.3 million) for defined-contribution plans.

Average number of employees during the financial year (weighted according to the level of employment)

	2009	2008
Employed by Erste Group	51,799	53,847
Domestic	16,343	16,369
Haftungsverbund savings banks	7,862	7,725
Abroad	35,456	37,478
Banca Comercială Română Group	9,339	11,564
Česká spořitelna Group	10,843	10,911
Slovenská sporiteľňa Group	4,598	4,916
Erste Bank Hungary Group	3,139	3,194
Erste Bank Croatia Group	2,287	1,975
Erste Bank Serbia	960	942
Erste Bank Ukraine	1,985	1,849
Other subsidiaries and foreign branch offices	2,305	2,127

Other administrative expenses

in EUR million	2009	2008
IT expenses	(333.1)	(311.0)
Expenses for office space	(275.0)	(261.4)
Office operating expenses	(196.3)	(203.1)
Advertising/marketing	(177.1)	(205.2)
Legal and consulting costs	(101.3)	(178.5)
Sundry administrative expenses	(119.5)	(153.9)
Total	**(1,202.3)**	**(1,313.1)**

Operating expenses (incl. repair and maintenance) for investment properties held for rental income totalled EUR 3.5 million (2008: EUR 3.2 million).

Depreciation and amortisation

in EUR million	2009	2008
Software and other intangible assets	(161.4)	(151.2)
Real estate used by the Group	(79.6)	(75.2)
Office furniture and equipment and sundry property and equipment	(136.6)	(148.6)
Total	**(377.6)**	**(375.0)**

Amortisation of customer relationships is not included in the item depreciation and amortisation, but in other operating result.

6) Other operating result

in EUR million	2009	2008
Other operating income	195.4	242.5
Other operating expenses	(551.2)	(1,021.3)
Total	**(355.8)**	**(778.8)**
Result from real estates/movables/properties	(86.7)	4.7
Allocation/release of other provisions/risks	(10.8)	(25.5)
Expenses for deposit insurance contributions	(55.9)	(45.3)
Amortisation of customer relationships	(67.2)	(76.9)
Other taxes	(24.8)	(25.5)
Impairment of goodwill	(28.0)	(579.1)[1)]
Result from other operating expenses/income	(82.4)	(31.2)
Total	**(355.8)**	**(778.8)**

1) Thereof apply to Banca Comercială Română, Erste Bank Serbia and Erste Bank Ukraine in total EUR (566,8) million.

Operating expenses (incl. repair and maintenance) for investment properties not held for rental income totalled EUR 7.1 million (2008: EUR 5.5 million).

7) Result from financial assets – at fair value through profit or loss

in EUR million	2009	2008
Gain/(loss) from measurement/sale of financial assets at fair value through p&l	113.2	(295.6)

8) Result from financial assets – available for sale (AfS)

in EUR million	2009	2008
Gain/(loss) from sale of financial assets available for sale	(14.1)	66.1
Impairment/reversal of impairment of financial assets available for sale	(190.0)	(279.9)
Total	**(204.1)**	**(213.8)**

During the reporting period the amount removed from other comprehensive income to result from financial assets – available for sale was EUR 21.9 million (2008: EUR (52.7) million).

9) Result from financial assets – held to maturity (HtM)

in EUR million	2009	2008
Income		
Income from sale of financial assets held to maturity	3.2	0.0
Reversal of impairment loss of financial assets held to maturity	1.7	0.0
Expenses		
Loss from sale of financial assets held to maturity	(7.2)	(0.7)
Impairment of financial assets held to maturity	(4.5)	(60.5)
Total	**(6.8)**	**(61.2)**

10) Taxes on income

Taxes on income are made up of current taxes on income calculated in each of the group companies based on the results reported for tax purposes, corrections to taxes on income for previous years, and the change in deferred taxes.

in EUR million	2009	2008
Current tax expense	(262.5)	(342.3)
Deferred tax expense/income	(22.2)	165.0
Total	**(284.7)**	**(177.3)**

The following table reconciles the product of pre-tax profit multiplied by the Austrian tax rate to income taxes reported in the income statement.

in EUR million	2009	2008
Pre-tax profit from continuing operations	1,261.3	576.2
Income tax expense for the financial year at the domestic statutory tax rate (25%)	(315.3)	(144.1)
Impact of different foreign tax rates	22.3	53.6
Impact of tax-exempt earnings of investments and other tax-exempt income	152.3	139.7
Tax increases due to non-deductible expenses	(193.5)	(258.3)
Tax income not attributable to the reporting period	49.5	31.8
Total	**(284.7)**	**(177.3)**

Tax effects relating to each component of other comprehensive income:

in EUR million	2009 Before-tax amount	2009 Tax benefit	2009 Net-of-tax amount	2008 Before-tax amount	2008 Tax benefit	2008 Net-of-tax amount
Available for sale-reserve (including currency translation)	1,124.1	(394.3)	729.8	(882.8)	275.6	(607.2)
Cash flow hedge-reserve (including currency translation)	8.4	(2.2)	6.2	135.6	(31.8)	103.8
Actuarial gains and losses	37.3	(9.3)	28.0	6.3	(1.6)	4.7
Currency translation	(203.4)	0.0	(203.4)	(611.0)	0.0	(611.0)
Other comprehensive income	**966.4**	**(405.8)**	**560.6**	**(1,351.9)**	**242.2**	**(1,109.7)**

11) Profit from discontinued operations net of tax

in EUR million	2009	2008
Profit from disposal of discontinuing operations	0.0	749.6
Taxes on disposal of discontinued operations	0.0	(118.7)
Profit from discontinued operations	0.0	8.0
Income tax on discontinued operations	0.0	0.8
Total	**0.0**	**639.7**

12) Appropriation of profit

It will be proposed to the annual general meeting of Erste Group Bank AG to pay shareholders a dividend of EUR 0.65 per share or EUR 245,651,305.90 in total. To shareholders of participation capital, a dividend of 8% on nominal value, this is EUR 141,099,520.00, will be distributed.In 2009 dividends paid for the financial year 2008 amounted to EUR 206,058,295.95 and the related amount per share was EUR 0.65. (In 2008 dividends paid for the financial year 2007 amounted to: EUR 237,216,708.75 and the related amount per share was EUR 0.75). The distributable profit according to Austrian accounting regulations of Erste Group Bank AG amounts to EUR 386.8 million (2008: EUR 206.1 million).

13) Cash and balances with central banks

in EUR million	2009	2008
Cash in hand	2,183	2,236
Balances with central banks	3,813	5,320
Total	**5,996**	**7,556**

14) Loans and advances to credit institutions

in EUR million	2009	2008
Loans and advances to domestic credit institutions	1,337	1,471
Loans and advances to foreign credit institutions	11,803	12,873
Total	**13,140**	**14,344**

Loans and advances to credit institutions include a total of EUR 0 million (2008: EUR 100.9 million) of items to which the fair value option was applied.

15) Loans and advances to customers

in EUR million	2009	2008
Loans and advances to domestic customers		
Public sector	2,758	2,947
Commercial customers	35,610	35,821
Private customers	23,285	22,805
Unlisted securities	250	0
Other	153	136
Total loans and advances to domestic customers	**62,056**	**61,709**
Loans and advances to foreign customers		
Public sector	2,802	2,026
Commercial customers	34,686	34,179
Private customers	28,417	26,948
Unlisted securities	944	1,172
Other	229	151
Total loans and advances to foreign customers	**67,078**	**64,476**
Total	**129,134**	**126,185**

16) Risk provisions for loans and advances

Risk provisions 2009

in EUR million	2008	Acquisition of subsidiaries	Currency translation	Allocations	Use	Releases	Interest income from impaired loans	Reclassification	2009
Specific provisions	3,002	35	(3)	1,979	(601)	(507)	(118)	(10)	3,777
Portfolio provisions	781	11	(10)	574	0	(179)	0	0	1,177
Risk provisions for loans and advances [1)]	**3,783**	**46**	**(13)**	**2,553**	**(601)**	**(686)**	**(118)**	**(10)**	**4,954**
Other risk provisions [2)]	107	0	1	10	(2)	(5)	0	1	112
Provision for guarantees	127	2	0	197	(10)	(59)	0	9	266
Total	**4,017**	**48**	**(12)**	**2,760**	**(613)**	**(750)**	**(118)**	**0**	**5,332**

1) Risk provisions for loans and advances are recognised in the balance sheet as a deduction from assets.
2) Other risk provisions mainly include provisions for legal proceedings, realisation losses, and liabilities for statements made in offering circulars.

Risk provisions 2008

in EUR million	2007	Acquisition of subsidiaries	Currency translation	Allocations	Use	Releases	Interest income from impaired loans	Reclassification[3)]	2008
Specific provisions	2,431	34	(18)	1,377	(443)	(521)	(85)	227	3,002
Portfolio provisions	865	11	(8)	241	0	(76)	0	(252)	781
Risk provisions for loans and advances [1)]	**3,296**	**45**	**(26)**	**1,618**	**(443)**	**(597)**	**(85)**	**(25)**	**3,783**
Other risk provisions [2)]	143	0	1	9	(26)	(24)	0	4	107
Provision for guarantees	66	0	(1)	92	(3)	(48)	0	21	127
Total	**3,505**	**45**	**(26)**	**1,719**	**(472)**	**(669)**	**(85)**	**0**	**4,017**

1) Risk provisions for loans and advances are recognised in the balance sheet as a deduction from assets.
2) Other risk provisions mainly include provisions for legal proceedings, realisation losses, and liabilities for statements made in offering circulars.
3) Reclassifications include reintegrations of loans written off.

17) Trading assets

in EUR million	2009	2008
Bonds and other interest-bearing securities		
Listed	5,087	4,327
Unlisted	510	148
Equity-related securities		
Listed	101	112
Unlisted	314	415
Positive fair value of derivative financial instruments		
Currency-related derivatives	184	485
Interest-rate-related derivatives	2,354	1,987
Other derivatives	48	60
Total	**8,598**	**7,534**

18) Financial assets – at fair value through profit or loss

in EUR million	2009	2008
Bonds and other interest-bearing securities		
Listed	2,355	3,164
Unlisted	169	158
Equity-related securities	473	736
Total	**2,997**	**4,058**

Among equity-related securities especially investment-funds are disclosed.

19) Financial assets – available for sale (AfS)

in EUR million	2009	2008
Bonds and other interest-bearing securities		
Listed	10,629	9,248
Unlisted	2,371	3,597
Equity-related securities		
Listed	599	418
Unlisted	2,275	2,301
Equity holdings	516	469
Total	**16,390**	**16,033**

Among equity-related securities especially investment-funds are disclosed.

20) Financial assets – held to maturity (HtM)

in EUR million	2009	2008
Listed	12,547	12,859
Unlisted	2,352	1,286
Total	**14,899**	**14,145**

This table mainly includes bonds and other interest bearing securities quoted in an active market with the positive intention and ability to hold to maturity.

21) Equity holdings in associates accounted for at equity

in EUR million	2009	2008
Credit institutions	129	128
Non-credit institutions	112	132
Total	**241**	**260**

The table below shows the aggregated financial information of companies accounted for at equity:

in EUR million	2009	2008
Total assets	5,471	6,018
Total liabilities	3,661	4,231
Income	567	884
Profit/loss	6	59

At 31 December 2009, the fair value of listed companies accounted for at equity was EUR 30.8 million (2008: EUR 12.1 million).

22) Movements in fixed assets schedule

Movements in fixed assets schedule 2009

in EUR million	At cost 2008	Acquisition of sub-sidiaries (+)	Disposal of subsidiaries (–)	Currency translation (+/–)	Additions (+)	Disposals (–)	At cost 2009
Intangible assets	**7,108**	**131**	**0**	**(176)**	**351**	**(207)**	**7,207**
Goodwill	4,418	40	0	(126)	0	(6)	4,326
Customer relationships	707	86	0	(33)	17	0	777
Brand	321	0	0	(16)	0	0	305
Other (primarily software)	1,662	5	0	(1)	334	(201)	1,799
Property and equipment	**4,624**	**62**	**(1)**	**(22)**	**441**	**(510)**	**4,594**
Land and buildings (used by the group)	2,722	43	0	(14)	283	(268)	2,766
Office furniture and equipment, hardware and sundry property and equipment	1,902	19	(1)	(8)	158	(242)	1,828
Investment properties and movable other property[1)]	**1,551**	**0**	**(32)**	**8**	**148**	**(97)**	**1,578**
Investment properties	1,510	0	(32)	8	145	(82)	1,549
Movable other property	41	0	0	0	3	(15)	29
Total	**13,283**	**193**	**(33)**	**(190)**	**940**	**(814)**	**13,379**

1) Investment properties and movable other property are reported in other assets.

The amount recorded for investment properties includes carrying amounts of leased assets of EUR 90 million (2008: EUR 94 million) under operating leases.

In the reporting period, borrowing costs of EUR 16.9 million were capitalised. The related interest rates ranged from 1.9% to 5.1%. (2008: 4.4% to 8.2%).

in EUR million	Accumulated depreciation 2009	Currency translation (+/–)	Amortisation and depreciation (–)[2)]	Impairment (+/–)[3)]	Carrying amounts 2009
Intangible assets	**(2,340)**	**36**	**(228)**	**(28)**	**4,867**
Goodwill	(1,006)	29	0	(28)	3,320
Customer relationships	(206)	7	(67)	0	571
Brand	0	0	0	0	305
Other (primarily software)	(1,128)	0	(161)	0	671
Property and equipment	**(2,250)**	**2**	**(217)**	**(11)**	**2,344**
Land and buildings (used by the group)	(897)	2	(80)	(10)	1,869
Office furniture and equipment, hardware and sundry property and equipment	(1,353)	0	(137)	(1)	475
Investment properties and movable other property[1)]	**(382)**	**2**	**(31)**	**(56)**	**1,196**
Investment properties	(368)	2	(26)	(56)	1,181
Movable other property	(14)	0	(5)	0	15
Total	**(4,972)**	**40**	**(476)**	**(95)**	**8,407**

1) Investment properties and movable other property are reported in other assets.
2) Including amortisation and depreciation reported by non-bank companies, which is reflected in other operating result.
3) Impairment losses are included in other operating result.

Goodwill at 31 December 2009 comprised predominantly goodwill of EUR 1,820.7 million (2008: EUR 1,917.5 million) from Banca Comercială Română S.A, goodwill of EUR 543.1 million (2008: EUR 543.1 million) from Česká spořitelna a.s., goodwill of EUR 312.7 million (2008: EUR 312.7 million) from Erste Bank Hungary Nyrt. as well as goodwill of EUR 226.3 million (2008: EUR 226.3 million) from Slovenská sporitel'ňa a.s..

In the first quarter of 2009, Erste Asset Management GmbH (a member of Erste Group) acquired 95% of the shares in Ringturm Kapitalanlagegesellschaft m.b.H. After signing the purchase contract the acquisition became effective with the granting of the approval by the Austrian Federal Competition Authority as of 21 March 2009. The aggregate goodwill for this transaction amounts to EUR 36.3 million, customer relationships are recognised with EUR 84.8 million.

At 31 December 2009, customer relationships included the customer relationships of Banca Comercială Română at EUR 433.4 million (2008: EUR 515.2 million), the customer relationship and distribution network of Erste Card Club d.d. Croatia at EUR 31.7 million (2008: EUR 38.3 million), as well as the customer relationships of Ringturm Kapitalanlagegesellschaft m.b.H at EUR 81.5 million.

The item brand at 31 December 2009 consisted of the brand of Banca Comercială Română, at EUR 304.8 million (2008: EUR 321.0 million).

Movements in fixed assets schedule 2008

in EUR million	At cost	Acquisition of sub-sidiaries (+)	Disposal of subsidiaries (–)	Currency translation (+/–)	Additions (+)	Disposals (–)	At cost 2008
Intangible assets	**7,519**	**61**	**(213)**	**(410)**	**231**	**(80)**	**7,108**
Goodwill	4,818	43	(150)	(293)	0	0	4,418
Customer relationships	838	0	(55)	(81)	5	0	707
Brand	360	0	(2)	(37)	0	0	321
Other (primarily software)	1,503	18	(6)	1	226	(80)	1,662
Property and equipment	**4,443**	**44**	**(5)**	**(62)**	**554**	**(350)**	**4,624**
Land and buildings (used by the group)	2,611	30	(2)	(49)	255	(123)	2,722
Office furniture and equipment, hardware and sundry property and equipment	1,832	14	(3)	(13)	299	(227)	1,902
Investment properties and movable other property[1)]	**1,476**	**47**	**0**	**1**	**145**	**(118)**	**1,551**
Investment properties	1,420	47	0	1	132	(90)	1,510
Movable other property	56	0	0	0	13	(28)	41
Total	**13,438**	**152**	**(218)**	**(471)**	**930**	**(548)**	**13,283**

1) Investment properties and movable other property are reported in other assets.

in EUR million	Accumulated depreciation 2008	Currency translation (+/–)	Amortisation and depreciation (–)[2)]	Impairment (+/–)[3)]	Carrying amounts 2008
Intangible assets	**(2,303)**	**19**	**(228)**	**(576)**	**4,805**
Goodwill	(1,007)	0	0	(579)[4)]	3,411
Customer relationships	(146)	16	(77)	0	561
Brand	0	0	0	0	321
Other (primarily software)	(1,150)	3	(151)	3	512
Property and equipment	**(2,238)**	**17**	**(224)**	**8**	**2,386**
Land and buildings (used by the group)	(835)	6	(75)	8	1,887
Office furniture and equipment, hardware and sundry property and equipment	(1,403)	11	(149)	0	499
Investment properties and movable other property[1)]	**(272)**	**4**	**(31)**	**(33)**	**1,279**
Investment properties	(257)	4	(27)	(33)	1,253
Movable other property	(15)	0	(4)	0	26
Total	**(4,813)**	**40**	**(483)**	**(601)**	**8,470**

1) Investment properties and movable other property are reported in other assets.
2) Including amortisation and depreciation reported by non-bank companies, which is reflected in other operating result.
3) Impairment losses are included in other operating result.
4) Thereof, Banca Comerciala Românà, Erste Bank Serbia and Erste Bank Ukraine account for a total of EUR 566.8 million

23) Tax assets and liabilities

in EUR million	Tax assets 2009	Tax assets 2008	Tax liabilities 2009	Tax liabilities 2008
Deferred tax assets				
Temporary differences relate to the following items: Loans and advances to credit institutions and customers	(178)	32	(21)	(200)
Risk provisions for loans and advances	86	40	(64)	(28)
Financial assets – at fair value through profit or loss	1	4	0	1
Financial assets – available for sale	191	528	(29)	38
Property and equipment	119	7	3	105
Deposits by banks and customer deposits	(18)	(26)	(22)	(7)
Long-term employee provisions	94	139	19	3
Sundry provisions	35	20	3	14
Tax loss carry forward	136	56	4	53
Customer relationships and brand	0	0	(145)	(141)
Other	(13)	1	(79)	(117)
Total deferred taxes	**453**	**801**	**(331)**	**(279)**
Current taxes	**124**	**58**	**(30)**	**(110)**
Total taxes	**577**	**859**	**(361)**	**(389)**

In compliance with IAS 12.39, no deferred tax liabilities were recognised for temporary differences relating to investments in subsidiaries in the amount of EUR 356 million (31 December 2008: EUR 358 million), as they will not reverse in the foreseeable future.

No deferred taxes were recognised for tax loss carryforwards of EUR 941 million (31 December 2008: EUR 800 million), as they will not be realised in the foreseeable future.

24) Assets held for sale

in EUR million	2009	2008
Assets held for sale	58	47
Disposal group	0	479
Total	**58**	**526**

Assets held for sale include mainly cars and buildings.

As the criteria for IFRS 5 (sale within 12 months) were not fulfilled for the sale of Anglo Romanian Bank, in 2009 a reclassification to the respective balance sheet positions took place.

Specified assets classified as disposal group were as follows as of 31 December 2009:

in EUR million	2009	2008
Loans and advances to credit institutions	0	158
Loans and advances to customers	0	268
Other assets	0	53
Total	**0**	**479**

The income and expenses recognised in other comprehensive income for these assets at 31 December 2009 amounted to EUR 0 million (2008: EUR (1.1) million).

25) Other assets

in EUR million	2009	2008
Accrued interest and commissions	1,307	1,837
Deferred income	240	613
Investment properties	1,181	1,253
Positive fair values of derivatives (banking book)	2,127	460
Sundry assets	2,568	2,370
Total	**7,423**	**6,533**

Sundry assets consist mainly of clearing items from the settlement of securities and payment transactions.

The fair value of investment properties totalled EUR 1.2 billion (2008: EUR 1.3 billion).

The determination of fair values in Austria is widely conducted by internal experts, in the CEE-countries on the basis of external expert opinions. The thereby determined market values are cross-checked with observed market values.

26) Deposits by banks

in EUR million	2009	2008
Deposits by banks – domestic credit institutions	9,239	16,103
Deposits by banks – foreign credit institutions	17,056	18,569
Total	**26,295**	**34,672**

27) Customer deposits

in EUR million	Domestic 2009	Domestic 2008	Abroad 2009	Abroad 2008	Total 2009	Total 2008
Savings deposits	41,590	38,706	11,778	10,826	53,368	49,532
Sundry						
Public sector	1042	938	2,993	4,024	4,035	4,962
Commercial customers	9,635	11,183	11,881	11,425	21,516	22,608
Private customers	4,949	4,411	27,602	27,205	32,551	31,616
Sundry	247	276	325	311	572	587
Total other	**15,873**	**16,808**	**42,801**	**42,965**	**58,674**	**59,773**
Total	**57,463**	**55,514**	**54,579**	**53,791**	**112,042**	**109,305**

Customer deposits included a total of EUR 155 million (31 December 2008: EUR 128 million) of liabilities to which the fair value option was applied. The total amount repayable on these liabilities at 31 December 2009 was EUR 152 million (31 December 2008: EUR 129 million). The difference between the fair value of these liabilities and the amount repayable at 31 December 2009 totalled EUR 3 million (31 December 2008: EUR (1) million).

28) Debt securities in issue

in EUR million	2009	2008
Bonds	20,982	17,680
Certificates of deposit	3,473	6,072
Other certificates of deposits/ name certificates	1,583	2,859
Mortgage and municipal bonds	6,540	5,730
Other	55	91
Repurchased own issues	(3,021)	(1,949)
Total	**29,612**	**30,483**

In 1998, Erste Group Bank AG launched a debt issuance programme (DIP); the emission amounts to EUR 30 billion. The DIP is a programme for issuing debt instruments in various currencies, with a wide array of available structures and maturities.
177 new issues with total volume of about EUR 4.8 billion were floated under the DIP in 2009.

Furthermore, in January 2009, a debt issuance programme to float an issue of state-side guaranteed bonds was released; the volume is EUR 6 billion. In 2009, four issues amounting to around EUR 4.05 billion were floated.

The euro commercial paper and certificates of deposit programme of August 2008 has an overall size of EUR 10 billion. In all, 106 issues amounting to EUR 4.8 billion were placed in 2009; issues totalling approximately EUR 5.6 billion were redeemed over the same period.

Outstanding debt securities included EUR 74 million (31 December 2008: EUR 65 million) in liabilities to which the fair value option was applied. The total amount repayable on these liabilities at 31 December 2009 was EUR 91 million (31 December 2008: EUR 68 million). The difference between the fair value of these liabilities and the amount repayable at 31 December 2009 was EUR (17) million (2008: EUR (3) million).

29) Trading liabilities

in EUR million	2009	2008
Negative market value from derivative financial instruments		
Currency-related derivatives	486	322
Interest-rate-related derivatives	1,908	1,923
Other derivatives	43	45
Other trading liabilities	720	229
Total	**3,157**	**2,519**

30) Provisions

in EUR million	2009	2008
Long-term employee provisions	1,171	1,249
Sundry provisions	499	371
Total	**1,670**	**1,620**

a) Long-term employee provisions

in EUR million	Pensions	Severance payments	Jubilee payments	Total
Present value of long-term employee´s benefit obligations 31 Dec 2005 restated	**793**	**330**	**57**	**1,180**
Present value of long-term employee´s benefit obligations 31 Dec 2006	**981**	**410**	**62**	**1,453**
Present value of long-term employee´s benefit obligations 31 Dec 2007	**991**	**395**	**62**	**1,448**
Increase from acquisition of subsidiaries	14	8	1	23
Decrease from disposal of subsidiaries	(10)	(4)	0	(14)
Service cost	0	16	4	20
Interest cost	47	20	3	70
Payments	(73)	(32)	(5)	(110)
Exchange rate difference	0	(2)	0	(2)
Actuarial gains/(losses) recognised in other comprehensive income	(19)	6	0	(13)
Actuarial gains/(losses) recognised in income	0	0	5	5
Present value of long-term employee´s benefit obligations 31 Dec 2008	**950**	**407**	**70**	**1,427**
Obligations covered by plan assets	0	213	8	221
Obligations covered by provisions	0	194	62	256
Less fair value of plan assets	**0**	**171**	**7**	**178**
Provisions as of 31 Dec 2008	**950**	**236**	**63**	**1,249**
Present value of long-term employee´s benefit obligations 31 Dec 2008	**950**	**407**	**70**	**1,427**
Increase from acquisition of subsidiaries	7	4	1	12
Decrease from disposal of subsidiaries	0	0	0	0
Settlements	(10)	(1)	0	(11)
Curtailments	0	0	(1)	(1)
Service cost	0	16	4	20
Interest cost	50	23	4	77
Payments	(73)	(33)	(5)	(111)
Exchange rate difference	0	(1)	0	(1)
Actuarial gains/(losses) recognised in other comprehensive income	(37)	(6)	0	(43)
Actuarial gains/(losses) recognised in income	0	0	(2)	(2)
Present value of long-term employee´s benefit obligations 31 Dec 2009	**887**	**409**	**72**	**1,368**
Obligations covered by plan assets	0	190	8	198
Obligations covered by provisions	0	219	64	283
Less fair value of plan assets	**0**	**189**	**8**	**197**
Provisions as of 31 Dec 2009	**887**	**220**	**64**	**1,171**

The movement in plan assets during the reporting period was as follows:

in EUR million	Severance payments	Jubilee payments	Total
Fair value of plan assets as of 31 Dec 2007	**0**	**0**	**0**
Addition as of 1 July 2008	174	7	181
Expected return on plan assets	4	0	4
Contributions by the employer	8	0	8
Benefits paid	(8)	0	(8)
Actuarial gains/(losses) recognised in other comprehensive income	(7)	0	(7)
Actuarial gains/(losses) recognised in income	0	0	0
Settlements	0	0	0
Fair value of plan assets as of 31 Dec 2008	**171**	**7**	**178**
Expected return on plan assets	9	0	9
Contributions by the employer	32	2	34
Benefits paid	(17)	(1)	(18)
Actuarial gains/(losses) recognised in other comprehensive income	(6)	0	(6)
Actuarial gains/(losses) recognised in income	0	0	0
Settlements	0	0	0
Fair value of plan assets as of 31 Dec 2009	**189**	**8**	**197**

In 2010 the expected premiums for the severance and jubilee benefit obligations will amount to EUR 12.7 million (2009: EUR 13.5 million).

The following table presents the portfolio structure of the plan assets

in EUR million	2009	2008
Debt instruments	186	106
Fixed-term deposits / cash	11	72
Total	**197**	**178**

In 2009, actual gain on plan assets amounted to EUR 3.8 million (2009: EUR (3.1) million).

b) Sundry provisions

Sundry provisions 2009

in EUR million	2008	Acquisition/ disposal of subsidiaries	Currency translation	Alloca-tions	Use	Releases	Reclassi-fication	2009
Provision for off-balance-sheet and other risks	234	2	1	207	(12)	(64)	10	378
Sundry other provisions[1)]	137	0	1	16	(15)	(6)	(12)	121
Total	**371**	**2**	**2**	**223**	**(27)**	**(70)**	**(2)**	**499**

1) Sundry other provisions consist mainly of provisions for litigation. It is considered highly likely that use will be made of sundry other provisions next year.

Sundry provisions 2008

in EUR million	2007	Acquisition of subsidiaries	Currency translation	Alloca-tions	Use	Releases	Reclassi-fication	2008
Provision for off-balance-sheet and other risks	209	0	0	101	(29)	(72)	25	234
Sundry other provisions[1)]	135	(7)	0	43	(16)	(18)	0	137
Total	**344**	**(7)**	**0**	**144**	**(45)**	**(90)**	**25**	**371**

1) Sundry other provisions consist mainly of provisions for litigation. It is considered highly likely that use will be made of sundry other provisions next year.

31) Liabilities associated with assets held for sale

The liabilities classified as belonging to a disposal group had the following composition at 31 December 2009:

in EUR million	2009	2008
Deposits by banks	0	269
Customer deposits	0	59
Other liabilities	0	15
Total	**0**	**343**

32) Other liabilities

in EUR million	2009	2008
Deferred income	432	509
Accrued interest and commissions	1,247	1,626
Negative fair values of derivatives (banking book)	1,313	382
Sundry liabilities	3,310	2,451
Total	**6,302**	**4,968**

Sundry liabilities consist mainly of clearing items from the settlement of securities and payment transactions.

33) Subordinated liabilities

in EUR million	2009	2008
Subordinated issues and deposits	3,014	2,779
Supplementary capital	1,955	2,028
Hybrid issues	1,180	1,256
Repurchased own issues	(1)	(16)
Total	**6,148**	**6,047**

34) Total equity

in EUR million	2009	2008
Subscribed capital	2,517	634
Share capital	756	634
Participation capital	1,761	0
Additional paid-in capital	6,171	4,583
Retained earnings and other reserves	4,021	2,862
Owners of the parent	**12,709**	**8,079**
Non-controlling interests	3,414	3,016
Total[1)]	**16,123**	**11,095**

1) Details on equity are provided in Section III, Consolidated Statement of Changes in Total Equity.

At 31 December 2009, subscribed capital (also known as called up and fully paid share capital – the capital paid in by shareholders) consisted of 377,925,086 (2008: 317,012,763) voting bearer shares (ordinary shares). Additional paid-in capital (or share premium) represents the amount by which the issue price of the shares exceeded their accounting par value. Retained earnings and other reserves represent accumulated net profit brought forward, as well as income and expenses recognised in other comprehensive income.

In April 2009, Erste Group Bank AG issued participation capital-for subscription. Within the context of this offer, Erste Group-Bank AG placed EUR 540 million of participation capital with-private and institutional investors. In March, the Republic of Austria subscribed to EUR 1.0 billion of participation capital and in May, another EUR 224 million of participation certificates. In total, the participation capital issued during the course of the measures package amounts to a volume of EUR 1.76 billion. The Participation Capital Securities are perpetual and non-transferable. Erste Group is entitled to repay the participation capital securities only if the repayment amount would not be below 100% (resp. 150% after 1 January 2019) of the nominal amount).

Participation capital participates in losses of the Erste Group in the same manner as share capital, but the holders of participation capital do not have any voting rights. The participation capital securities do not confer any conversion right for ordinary shares of the Erste Group.

Dividend payments to holders of participation capital securities are made prior to distributions of dividends to shareholders of the Erste Group. Erste Group shall not be obliged to pay unpaid dividends.

The dividend on the participation capital is 8.0% per annum for the business years 2009 to 2013 8.0% p.a. For the business years starting from 2014 dividend is stepped-up in a following way: 2014 8.5% p.a., 2015 9.0% p.a., 2016 9.75% and from 2017 1% increase each year. However the dividend must not ever exceed 12-Month-EURIBOR plus 10% per annum.

In November 2009, Erste Group increased equity by public placement of ordinary shares in a total nominal amount of EUR 1.74 bn. in order to increase the tier-1 ratio and to improve the quality of the capital. 60 million of new shares were issued at a price of EUR 29.0 per share. The price was determined according to market conditions at the time of the issue.

Changes in number of shares and participation capital securities

in units	2009	2008
Shares outstanding at 1 January	**289,084,186**	**294,744,718**
Acquisition of own shares	(42,069,729)	(33,164,961)
Disposal of own shares	47,285,169	26,780,611
Capital increases due to ESOP and MSOP	912,323	723,818
Capital increase November 2009	60,000,000	0
Shares outstanding at 31 December	**355,211,949**	**289,084,186**
Own shares	22,713,137	27,928,577
Number of shares at 31 December	**377,925,086**	**317,012,763**
Weighted average number of shares outstanding	322,206,516	313,218,568
Dilution due to MSOP/ESOP	57,050	270,948
Weighted average number of shares taking into account the effect of dilution	322,263,567	313,489,516

in units	2009	2008
Participation capital securities outstanding at 1 January	**0**	**0**
Issue March until May 2009	1,763,744	0
Acquisition of own participation capital securities	(48,926)	0
Disposal of own participation capital securities	48,535	0
Participation capital securities outstanding at 31 December	**1,763,353**	**0**
Participation capital securities	391	0
Participation capital securities outstanding at 31 December	**1,763,744**	**0**

Under the **ESOP 2009,** between 4 and 15 May 2009, a total of 912,323 shares were subscribed at a price of EUR 12.00. The resulting issue proceeds of EUR 10,947,876.00 plus EUR 328,618.50 (from the difference between the issue price of EUR 12.00 and the quoted price on the 28 May 2009 value date of EUR 17.25 for 64,594 shares subscribed to by employees of Erste Group Bank AG charged to personnel expenses in the income statement) totalled EUR 11,276,494.50. Of this amount, EUR 1,824,646.00 was allocated to subscribed capital and EUR 9,451,848.50 to additional paid-in capital.

Employee share ownership plan and management share option plan

MSOP 2002: The MSOP comprises a maximum of 4,400,000 ordinary shares of Erste Group Bank AG after the stock split, represented by 1,100,000 options. The distribution of vested options among management board members, managers and eligible other staff of the Erste Group Bank AG group is shown in the tables below.

Terms of **MSOP 2002:** Each of the options, which are granted free of charge, entitles the holder to receive four shares; the transfer of options inter vivos is not permitted. The options granted in 2002 vested in three tranches, at which time they were credited to recipients' accounts: For the management board and other managers, on 24 April 2002, 1 April 2003 and 1 April 2004; for other key staff, on 1 June 2002, 1 June 2003 and 1 June 2004. The exercise price for all three tranches was set at the average market price of Erste Group Bank AG shares quoted in March 2002 (rounded down to the nearest half euro), which was EUR 66.00 per share. After the stock split performed in July 2004, the exercise price remains unchanged at EUR 66.00. This means that each option confers the right to purchase four shares of Erste Group Bank AG for a total of EUR 66.00, corresponding to a purchase price of EUR 16.50 per share. The option term begins when the options are credited to the option account (i.e., at vesting) and ends on the value date of the exercise window (defined below) of the fifth calendar year after vesting. Every year, notices of intention to exercise may be submitted beginning on the day immediately following the publication of preliminary consolidated net profit for the most recent completed financial year, but no earlier than 1 April and no later than 30 April of the year. This period represents the exercise window. It is followed by the one-year holding period, which ends on the value date of the year following exercise of the option. Up to 15% of the purchased shares may be sold during this holding period. In the 2007 financial year, 7,901 of the options vested in 2002 but not exercised were derecognised as worthless, in the 2008 financial year, 12,449 of the options vested in 2003 but not exercised were derecognised as worthless, and in the 2009 financial year, 24,447 of the options vested in 2004 but not exercised were derecognised as worthless; the total number derecognised as worthless was thus 44,797.

MSOP 2005: The MSOP comprises a maximum of 2,000,000 ordinary shares of Erste Group Bank AG, represented by 2,000,000 options. The distribution of vested options among management board members, managers and eligible other staff of the Erste Group Bank AG group is shown in the tables below.

Terms of MSOP 2005: Each of the options, which are granted free of charge, entitles the holder to receive one share; the transfer of options inter vivos is not permitted. The 2005 option grant dates were as follows: for the management board and other managers, 1 June 2005; for other key personnel, the grants occurred in three tranches, on 1 September 2005, 1 September 2006 and 31 August 2007. For all recipients the options were vested in three tranches, at which time they were credited to recipients' accounts: 1 September 2005, 1 September 2006 and 31 August 2007. The exercise price for all three tranches was set at the average market price of Erste Group Bank AG shares quoted in April 2005 plus a 10% premium, rounded down to the nearest half euro. The resulting exercise price was EUR 43.00 per share. The option term begins at the grant date and ends on the value date of the last exercise window of the fifth calendar year after the year in which the option vested. Every year, notices of intention to exercise may be submitted within 14 days from the day of publication of the quarterly results for the first, second and third quarter of each financial year (three exercise windows per year). The holding period runs for one year from the value date of the share purchase. Up to 25% of the purchased shares may be sold during this holding period.

The **MSOP 2002** options credited and exercised by the balance sheet date had the following distribution among recipients:

	Credited	Exercised[1)]	Not yet exercised	Expired
Andreas Treichl	12,000	12,000	0	0
Franz Hochstrasser	12,000	12,000	0	0
Herbert Juranek	3,000	3,000	0	0
Johannes Leobacher, since 1 April 2009	3,000	3,000	0	0
Bernhard Spalt	3,000	3,000	0	0
Manfred Wimmer	3,000	3,000	0	0
Total received by management board members	**36,000**	**36,000**	**0**	**0**
Other management	581,200	555,975	0	25,225
Other staff	294,914	275,342	0	19,572
Total options	**912,114**	**867,317**	**0**	**44,797**

1) In 2009 no options were exercised (2008: exercised 19,179)

The **MSOP 2005** options granted, vested and exercised had the following distribution among recipients:

	Granted	Credited	Exercised[1)]	Not yet exercised
Andreas Treichl	9,000	9,000	3,000	6,000
Franz Hochstrasser	9,000	9,000	3,000	6,000
Herbert Juranek	5,000	5,000	0	5,000
Johannes Leobacher, since 1 April 2009	3,000	3,000	0	3,000
Bernhard Spalt	5,000	5,000	0	5,000
Manfred Wimmer	3,000	3,000	0	3,000
Total received by management board members	**34,000**	**34,000**	**6,000**	**28,000**
Other management	737,500	737,500	130,610	606,890
Other staff	682,361	682,361	99,572	582,789
Total options	**1,453,861**	**1,453,861**	**236,182**	**1,217,679**

1) In 2009 no options were exercised (2008: exercised 2,998)

Information on shares held and transactions in Erste Group Bank AG shares by members of the management board and supervisory board (in number of shares):

Management board members:

Managing board member	At 31 Dec 2008	Additions 2009	Disposals 2009	At 31 Dec 2009
Andreas Treichl	184,640	25,000	0	209,640
Franz Hochstrasser	33,260	0	0	33,260
Bernhard Spalt	6,376	0	0	6,376
Herbert Juranek	656	0	0	656
Manfred Wimmer	13,132	5,000	0	18,132
Johannes Leobacher, since 1 April 2009	0	2,500	0	2,500

For members of the management board whose office term began or ended during the financial year 2009, their holdings in Erste Group Bank AG shares as of the date of inception or termination of the office term were considered as an addition or disposal.

The management board members held the following numbers of Erste Group Bank AG participation capital at the balance sheet date of 31 December 2009

Managing board member	Notional amount
Andreas Treichl	30,000
Herbert Juranek	30,000
Johannes Leobacher	20,000
Bernhard Spalt	10,000
Manfred Wimmer	30,000

Supervisory board members held the following numbers of Erste Group Bank AG shares at the balance sheet date of 31 December 2009:

Supervisory Board member	Shares held
Georg Winckler	2,500
Bettina Breiteneder	2,560
Jan Homan	4,400
Wilhelm Rasinger	13,735
Theresa Jordis	2,900
Friedrich Rödler	1,002
John James Stack	34,761
Werner Tessmar-Pfohl	1,268
Elisabeth Gürtler	700
Christian Havelka	1,651
Andreas Lachs	52
Friedrich Lackner	477
Bertram Mach	95
Barbara Smrcka	281
Karin Zeisel	35

At 31 December 2009, supervisory board members held a total of 1,000 options in Erste Group Bank AG shares.

As far as can be determined, persons related to members of the management board or supervisory board held 6,920 shares of Erste Group Bank AG as of 31 December 2009.

Supervisory board members held the following numbers of Participation capital at the balance sheet date of 31 December 2009:

Supervisory Board member	Notional amount
Heinz Kessler	30,000
Georg Winckler	5,000
Wilhelm Rasinger	28,000
Friedrich Rödler	82,000
Elisabeth Gürtler	59,000

As far as can be determined, persons related to members of the management board or supervisory board held 9,665 shares of Erste Group Bank AG as of 31 December 2009.
Personnel expenses include EUR 4.7 million (prior year: EUR 6.8 million) related to the ESOP and profit-sharing.

Authorised but unissued capital remaining at 31 December 2009, and participation capital at that date:

Clause 5 of the articles of association authorises the management board until 5 July, 2011, subject to approval by the supervisory board to increase – if necessary in several tranches – the subscribed capital of Erste Group Bank AG up to EUR 47,425,528.00 by issuing up to 23,712,764 shares as follows (type of share, issuing price, terms of issuing, and – if intended – exclusion of subscription rights are assigned by the management board with approval by the supervisory board): by issuing of shares by cash contributions without exclusion of subscription rights of existing shareholders; if, however, the capital increase is used for the issue of shares to employees, management or members of the management board of Erste Group Bank AG or a subsidiary while excluding the subscription rights of existing shareholders; by issuing of shares by contribution in kind while excluding the subscription rights of existing shareholders.

Under clause 6.10 of the articles of association there remains (after the utilisation in the financial years from 2002 to 2009) contingent capital of EUR 3,005,860.00, which may be utilised by issuing up to 1,502,930 bearer or registered shares at an issue price of at least EUR 2.00 (payable in cash) while excluding the subscription rights of existing shareholders.

According to clause 6.2 of the articles of association, the company has contingent capital of EUR 124,700,000.00 available, which may be utilised by issuing up to 62,350,000 bearer shares. This contingent capital can be used for granting conversion or subscription rights to holders of convertible bonds.

Clause 7 of the articles of association authorises the management board, subject to approval by the supervisory board, to perform the contingent issue by 5 July 2011 of up to EUR 20,000,000.00 of subscribed capital in the form of up to 10,000,000 ordinary bearer or registered shares at an issue price of at least EUR 2.00 per share (payable in cash) while excluding the subscription rights of existing shareholders. This contingent capital serves to grant share options to employees, managers and management board members of Erste Group Bank AG or group companies.

35) Segment reporting

The segment reporting of Erste Group follows the presentation and measurement requirements of IFRS.

New segment structure

In the interest of a clearer presentation of the group structure, the segment reporting has been aligned with the structure of Erste Group and is now divided into four primary segments: Retail & SME, Group Corporate & Investment Banking, Group Markets and Corporate Center.

Basis for Erste Group´s controlling of individual segments is the average attributed equity as well as the average risk-weighted assets. For the measurement and rating of the profitability of segments, RoE as well as cost/income ratio are used.

Retail & SME

The Retail & SME segment includes the individual, retail-focused regional banks of Erste Group. To enhance transparency and maintain continuity with the existing segmentation, the Austria division is divided into two subsegments, Erste Bank Oesterreich (including local subsidiaries) and Savings Banks. The latter subsegment consists of those savings banks which as a result of their membership in the Haftungsverbund are consolidated in the Erste Group accounts; the Savings Banks subsegment is thus unchanged from the past segmentation. In the Segment Central and Eastern Europe the individual subsidiaries continue to be reported separately.

Group Corporate & Investment Banking

The Group Corporate & Investment Banking segment includes all large corporate customers operating in the markets of Erste Group and having revenue of more than EUR 175 million. Also part of Group Corporate & Investment Banking segment is the former International Business excluding treasury activities; the real estate business of Erste Group including the leasing subsidiary, Immorent; and investment banking (including equity capital markets).

Group Markets

The Group Markets (GM) segment comprises the divisionalised business units Group Treasury and Capital Markets (which includes all capital markets activities except equity capital markets). Besides Erste Group Bank’s own treasury activities, it also includes the Capital Market units of the CEE subsidiaries and of the foreign branches in Hong Kong and New York, as well as the Capital Market activities of the investment banking subsidiaries, Erste Securities Polska, Erste Bank Investment Hungary and Erste Securities Zagreb, and the asset management activities of Erste Asset Management GmbH (formerly ERSTE-SPARINVEST Kapitalanlagegesellschaft m.b.H.).

Corporate Center segment

The Corporate Center segment continues to include group-wide services in the Marketing, Organisation, Information Technology and other departments that support the implementation of corporate strategy at group level. Consolidation effects and non-operating exceptional items are also recorded in this segment. Additionally, the Balance Sheet Management unit now forms part of the Corporate Center segment. The results of the local asset/liability business units continue to be reported in the individual subsegments.

Also recorded in Corporate Center is the amortisation of customer relationships at BCR, Erste Card Club d.d. and Ringturm KAG totalling EUR 65,9 million (2008: EUR 75.7 million).

Segmentation by core business

in EUR million	Retail and SME[3)] 2009	2008	GCIB 2009	2008	Group Markets 2009	2008	Corporate Center[3)] 2009	2008
Net interest income	4,530.3	4,399.2	570.5	469.3	193.2	263.8	(73.1)	(219.1)
Risk provisions for loans and advances	(1,788.6)	(885.4)	(267.9)	(186.0)	0.0	0.0	0.0	0.0
Net fee and commission income	1,567.9	1,661.5	162.7	161.3	106.1	137.8	(63.9)	10.6
Net trading result	182.6	115.8	(3.0)	2.8	407.0	15.8	(1.5)	(19.6)
General administrative expenses	(3,274.9)	(3,469.5)	(174.2)	(172.8)	(222.2)	(196.1)	(136.1)	(163.5)
Other result[1)]	(314.6)	(469.7)	(69.7)	(44.4)	(3.9)	(10.1)	(65.4)	(825.1)
Pre-tax profit from continuing operations	**902.7**	**1,351.9**	**218.4**	**230.0**	**480.2**	**211.1**	**(340.0)**	**(1,216.7)**
Taxes on income	(238.2)	(265.9)	(47.0)	(51.6)	(89.3)	(45.9)	89.8	186.2
Post-tax profit from continuing operations	**664.5**	**1,085.9**	**171.4**	**178.4**	**390.9**	**165.1**	**(250.2)**	**(1,030.5)**
Profit from discontinued operations net of tax	0.0	8.0	0.0	0.0	0.0	0.0	0.0	631.6
Profit for the year	**664.5**	**1,093.9**	**171.4**	**178.4**	**390.9**	**165.1**	**(250.2)**	**(398.9)**
attributable to								
non-controlling interests	65.5	208.7	5.0	8.6	23.1	13.7	(20.3)	(51.9)
owners of the parent	**599.1**	**885.2**	**166.4**	**169.8**	**367.8**	**151.5**	**(229.9)**	**(346.9)**
Average risk-weighted assets	74,338.4	73,717.5	26,536.8	22,791.3	3,144.9	1,851.3	2,579.4	3,124.3
Average attributed equity	4,079.6	3,325.4	2,086.0	1,454.8	344.0	189.8	3,432.3	3,996.9
Cost/income ratio	**52.1%**	**56.2%**	**23.9%**	**27.3%**	**31.5%**	**47.0%**	**-**	**-**
ROE[2)]	**14.7%**	**26.6%**	**8.0%**	**11.7%**	**106.9%**	**79.8%**	**-**	**-**

1) Other result consists of four income statement items: other operating result, result from financial assets at fair value through profit or loss, result from financial assets available for sale, and result from financial assets held to maturity.

2) ROE = return on equity. Net profit attributable to owners of the parent divided by average attributed equity.

3) Interest income on impaired loans was allocated to appropriate segments; Erste Factoring Croatia was allocated to the segment Croatia

in EUR million	Austria 2009	2008	Erste Bank Oesterreich 2009	2008	Haftungsverbund (Cross Guarantee System) 2009	2008	Central and Eastern Europe 2009	2008
Net interest income	1,594.6	1,631.4	637.5	625.8	957.1	1,005.5	2,935.7	2,767.8
Risk provisions for loans and advances	(482.7)	(408.1)	(151.4)	(100.9)	(331.3)	(307.2)	(1,305.9)	(477.3)
Net fee and commission income	696.4	674.2	302.8	292.4	393.6	381.9	871.5	987.2
Net trading result	59.7	32.6	9.4	16.8	50.3	15.8	122.9	83.2
General administrative expenses	(1,534.5)	(1,573.6)	(621.4)	(654.1)	(913.1)	(919.6)	(1,740.4)	(1,895.9)
Other result[1)]	(160.1)	(240.7)	3.2	(84.8)	(163.3)	(155.9)	(154.5)	(228.9)
Pre-tax profit from continuing operations	**173.4**	**115.7**	**180.0**	**95.2**	**(6.6)**	**20.5**	**729.3**	**1,236.1**
Taxes on income	(60.2)	(25.4)	(40.8)	(20.0)	(19.3)	(5.4)	(178.0)	(240.5)
Post-tax profit from continuing operations	**113.2**	**90.3**	**139.1**	**75.2**	**(25.9)**	**15.1**	**551.3**	**995.6**
Profit from discontinued operations net of tax	0.0	4.9	0.0	4.9	0.0	0.0	0.0	3.1
Profit for the year	**113.2**	**95.2**	**139.1**	**80.1**	**(25.9)**	**15.1**	**551.3**	**998.8**
attributable to								
non-controlling interests	(12.2)	39.8	10.0	(1.4)	(22.2)	41.2	77.7	168.9
owners of the parent	**125.4**	**55.4**	**129.1**	**81.5**	**(3.7)**	**(26.1)**	**473.6**	**829.9**
Average risk-weighted assets	38,174.5	38,924.9	14,066.6	14,316.3	24,107.9	24,608.5	36,163.9	34,792.7
Average attributed equity	1,442.8	1,199.9	1,137.4	981.1	305.4	218.7	2,636.8	2,125.6
Cost/income ratio	**65.3%**	**67.3%**	**65.4%**	**70.0%**	**65.2%**	**65.5%**	**44.3%**	**49.4%**
ROE[2)]	**8.7%**	**4.6%**	**11.4%**	**8.3%**	**-**	**-**	**18.0%**	**39.0%**

in EUR million	Czech Republic 2009	2008	Romania 2009	2008	Slovakia 2009	2008	Hungary 2009	2008
Net interest income	1,080.8	1,108.1	836.8	749.5	385.9	340.4	353.6	298.7
Risk provisions for loans and advances	(288.1)	(131.9)	(532.4)	(129.0)	(156.5)	(87.0)	(170.8)	(73.5)
Net fee and commission income	429.5	424.9	164.8	236.3	104.6	108.4	86.2	130.7
Net trading result	38.6	2.6	26.6	27.4	8.3	20.2	29.9	4.5
General administrative expenses	(695.8)	(746.4)	(383.3)	(457.6)	(249.6)	(247.2)	(214.0)	(223.8)
Other result	(107.3)	(217.2)	17.0	13.2	(50.3)	(34.5)	(1.3)	10.8
Pre-tax profit from continuing operations	**457.8**	**439.9**	**129.4**	**439.8**	**42.4**	**100.4**	**83.5**	**147.4**
Taxes on income	(105.0)	(89.7)	(17.1)	(73.2)	(14.4)	(17.6)	(25.7)	(37.7)
Post-tax profit from continuing operations	**352.8**	**350.2**	**112.3**	**366.6**	**28.0**	**82.8**	**57.8**	**109.7**
Profit from discontinued operations net of tax	0.0	9.7	0.0	(6.5)	0.0	0.0	0.0	0.0
Profit for the year	**352.8**	**359.9**	**112.3**	**360.1**	**28.0**	**82.8**	**57.8**	**109.7**
attributable to								
non-controlling interests	7.1	10.1	38.8	120.0	0.4	0.0	0.0	0.2
owners of the parent	**345.7**	**349.8**	**73.5**	**240.1**	**27.6**	**82.7**	**57.9**	**109.5**
Average risk-weighted assets	11,356.6	11,484.8	9,646.3	9,375.7	5,504.4	4,263.9	4,761.8	4,674.8
Average attributed equity	946.2	808.4	548.1	449.4	457.2	301.3	393.3	320.9
Cost/income ratio	**44.9%**	**48.6%**	**37.3%**	**45.2%**	**50.0%**	**52.7%**	**45.6%**	**51.6%**
ROE[2)]	**36.5%**	**43.3%**	**13.4%**	**53.4%**	**6.0%**	**27.5%**	**14.7%**	**45.5%**

in EUR million	Croatia 2009	Croatia 2008	Serbia 2009	Serbia 2008	Ukraine 2009	Ukraine 2008	Total 2009	Total 2008
Net interest income	223.4	204.6	28.1	33.5	27.1	33.0	5,220.9	4,913.1
Risk provisions for loans and advances	(74.5)	(28.1)	(7.0)	(6.6)	(76.7)	(21.0)	(2,056.6)	(1,071.4)
Net fee and commission income	74.4	76.9	10.9	7.4	1.3	2.6	1,772.8	1,971.1
Net trading result	9.0	14.8	3.1	4.1	7.5	9.5	585.1	114.7
General administrative expenses	(130.6)	(130.4)	(31.1)	(34.3)	(36.1)	(56.2)	(3,807.4)	(4,001.9)
Other result	(1.4)	(1.7)	(1.5)	1.8	(9.7)	(1.3)	(453.5)	(1,349.3)
Pre-tax profit from continuing operations	**100.3**	**136.2**	**2.5**	**5.9**	**(86.7)**	**(33.4)**	**1,261.3**	**576.2**
Taxes on income	(18.5)	(27.4)	(0.3)	0.4	2.9	4.7	(284.7)	(177.3)
Post-tax profit from continuing operations	**81.9**	**108.7**	**2.2**	**6.3**	**(83.7)**	**(28.7)**	**976.6**	**398.9**
Profit from discontinued operations net of tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	639.7
Profit for the year	**81.9**	**108.7**	**2.2**	**6.3**	**(83.7)**	**(28.7)**	**976.6**	**1,038.6**
attributable to								
non-controlling interests	30.6	37.0	0.8	1.6	0.0	0.0	73.2	179.0
owners of the parent	**51.3**	**71.8**	**1.4**	**4.7**	**(83.7)**	**(28.7)**	**903.4**	**859.6**
Average risk-weighted assets	3,577.6	3,619.8	741.2	815.8	576.0	557.8	106,599.5	101,484.4
Average attributed equity	194.2	158.4	49.0	44.5	48.9	42.8	9,941.9	8,966.9
Cost/income ratio	**42.6%**	**44.0%**	**74.0%**	**76.2%**	**-**	**-**	**50.2%**	**57.2%**
ROE[2)]	**26.4%**	**45.3%**	**2.8%**	**10.5%**	**-**	**-**	**9.1%**	**9.6%**

36) Assets and liabilities denominated in foreign currency and outside Austria

Assets and liabilities not denominated in EUR were as follows:

in EUR million	2009	2008
Assets	85,319	99,610
Liabilities	58,760	78,866

The assets and liabilities outside Austria are given below:

in EUR million	2009	2008
Assets	108,671	116,823
Liabilities	86,195	86,170

37) Leases

a) Finance leases

Erste Group leases both movable property and real estate to other parties under finance lease arrangements. For the finance lease receivables included in this item, the reconciliation of the gross investment in leases to the present value of the minimum lease payments is as follows:

in EUR million	2009	2008
Outstanding minimum lease payments	6.477	7.238
Non-guaranteed residual values	1.226	1.246
Gross investment	**7.703**	**8.484**
Unrealised financial income	1.250	2.134
Net investment	**6.453**	**6.350**
Present value of non-guaranteed residual values	797	699
Present value of minimum lease payments	**5.656**	**5.651**

The maturity analysis of gross investment in leases and present values of minimum lease payments under non-cancellable leases is as follows (residual maturities):

in EUR million	Gross investment		Present value of minimum lease payments	
	2009	2008	2009	2008
< 1 year	1,441	1,542	1,214	1,275
1-5 years	3,461	3,787	2,757	2,889
> 5 years	2,801	3,155	1,685	1,487
Total	**7,703**	**8,484**	**5,656**	**5,651**

In the reporting period, the total amount of accumulated allowance for uncollectible minimum lease payments is as follows EUR 52 million (2008: 49 million).

The total amount of contingent rents from finance leases recognised as income in the period was EUR 45 million (2008: 54 million).

b) Operating leases

Under operating leases, Erste Group leases both real estate and movable property to other parties.

Operating leases from view of Erste Group Bank AG as lessor:

Further minimum lease payments from non-cancellable operating leases as follows:

in EUR million	2009	2008
< 1 year	76	24
1-5 years	202	78
> 5 years	20	49
Total	**298**	**151**

The total amount of contingent rent from operating leases recognised as income in the reporting period was EUR 0 million (2008: EUR 0.2 million).

Operating leases from the view of Erste Group Bank AG as lessee:

Further minimum lease payments from non-cancellable operating leases as follows:

in EUR million	2009	2008
< 1 year	1	1
1-5 years	3	4
> 5 years	0	0
Total	**4**	**5**

38) Related-party transactions and principle shareholders

Loans and advances to and amounts owed to unconsolidated subsidiaries and to other investments were as follows:

in EUR million	2009	2008
Loans and advances to credit institutions		
Associates accounted for at equity	99	137
Other investments	1	1
Total	**100**	**138**
Loans and advances to customers		
Associates accounted for at equity	279	383
Other investments	874	859
Total	**1,153**	**1,242**
Financial assets – at fair value through profit or loss		
Associates accounted for at equity	3	3
Other investments	5	6
Total	**8**	**9**
Financial assets – available for sale		
Associates accounted for at equity	13	13
Other investments	16	8
Total	**29**	**21**
Financial assets – held to maturity		
Associates accounted for at equity	0	0
Other investments	4	4
Total	**4**	**4**
Deposits by banks		
Associates accounted for at equity	78	47
Other investments	0	0
Total	**78**	**47**
Customer deposits		
Associates accounted for at equity	25	24
Other investments	178	201
Total	**203**	**225**

Transactions with related parties are done on arm´s length basis.

Principal shareholders

At the end of 2009, DIE ERSTE oesterreichische Spar-Casse Privatstiftung, a foundation, held approximately 26.1% of the shares of Erste Group Bank AG, making the foundation the largest shareholder. In 2009, the foundation received a dividend of EUR 64.1 million on its shareholding in Erste Group Bank AG (for the 2008 financial year). The purpose of the foundation, which is intended to be achieved particularly by holding a substantial equity interest in Erste Group Bank AG, is to support social, scientific, cultural and charitable institutions as well as to generally promote the guiding principles of the savings bank philosophy. At 31 December 2009, the members of the foundation`s management board were Andreas Treichl (chairman of the management board of Erste Group Bank AG), Dietrich Karner, Richard Wolf and Boris Marte. At that date, the foundation`s supervisory board had ten members, two of whom where also members of the supervisory board of Erste Group Bank AG.

Under clause 15.1. of the articles of association, DIE ERSTE österreichische Spar-Casse Privatstiftung is entitled – as long as, under Section 92(9) of the Austrian Banking Act, it guarantees all present and further liabilities of Erste Group Bank AG in the event of the latter's insolvency – to delegate up to one-third of the supervisory board of members to be elected by the annual general meeting. To date, this right of delegation has not been excercised.

At 31 December 2009, in respect of the foundation, Erste Group had accounts payable of EUR 33.1 million and accounts receivable of EUR 283.4 million. In addition, standard derivative transactions on normal market terms were in place for hedging purposes between Erste Group and foundation at the end of 2009. These were interest rate swaps with caps and floors in the notional amount of 247.4 million each.

In 2009, Erste Group accrued interest income of EUR 14.3 million receivable from and interest expenses of EUR 1.6 million payable to the foundation from accounts receivable and payable and from the derivative transactions outlined.

At the end of 2009, Criteria Caixa Corp S.A. with head office in Barcelona, Spain, held 38,170,433 Erste Group Bank shares, which is relating to 10.1% participation of Erste Group Bank AG´s share capital. Juan Maria Nin, Deputy Chairman of Criteria Caixa Corp. S.A. is member of the supervisory board of Erste Group Bank AG.

Other compensation

At the end of 2009, loans and advances to members of the management board totalled EUR 899 thousand (31 December 2008: EUR 882 thousand). Loans and advances to persons related to members of the management board totalled EUR 24 thousand at 31 December 2009 (31 December 2008: EUR 59 thousand). Loans to members of the supervisory board totalled EUR 259 thousand (end of 2008: EUR 294 thousand). Loans and advances to persons related to members of the supervisory board totalled EUR 418 thousand (31 December 2008: EUR 33 thousand). The applicable interest rates and other terms (maturity dates and collateral) represent market terms. In 2009, there were no material loan repayments.

In the year under review, management board members who held office in 2009 received remuneration (including compensation in kind) totalling EUR 4.671 thousand (2008: EUR 10,803 thousand) in this capacity. This represented 0.2% of the total personnel expenses of the Erste Group. In the 2009 financial year, EUR 916 thousand (2008: EUR 1,559 thousand) was paid to former members of the management board or their surviving dependants.

The breakdown of management board compensation paid in 2009 was as follows:

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

The item other compensation includes pension fund contributions (at severance payments – new).

In 2009, the management board of Erste Group Bank AG did not receive board emoluments or other compensation from fully consolidated subsidiaries of Erste Group Bank AG. The compensation of management board members is based on the individual's responsibilities, the achievement of corporate targets and the group's financial situation.

The supervisory board must consist of at least three and at most 12 members elected by the general meeting. DIE ERSTE österreichische Spar-Casse Privatstiftung, a foundation, has the right to delegate up to one-third of the members of the supervisory board, elected by the general meeting, as long as the foundation guarantees acc. to Section 93 (9) Austrian Banking Act all existing and future liabilities of the company in case of illiquidity. Participation in the supervisory board ends in case of death, recall, demission, or if a defined obstruction reason occurs. For recall, a majority of three quarters of the valid votes cast and a majority of at least three quarters of the attending members representing the ordinary share capital are necessary.

In 2009, the members of the supervisory board of Erste Group Bank AG were paid a combined total of EUR 479 thousand (2008: 507 thousand) in this capacity. Members of the supervisory board received the following compensation for board positions in fully consolidated subsidiaries of Erste Group Bank AG: Heinz Kessler: EUR 40,536; Friedrich Rödler: EUR 8,375; Werner Tessmar-Pfohl: EUR 26,000. Georg Winckler: EUR 400; and Gabriele Zuna-Kratky EUR 750.

There were no other transactions with members of the supervisory board. Companies related to members of the supervisory board invoiced the following amount from other transactions:

In 2009, DORDA BRUGGER JORDIS Rechtsanwälte GmbH, a law firm in which Theresa Jordis is a partner, invoiced Erste Group Bank AG a total of EUR 409,175.93 for several mandates.

Friedrich Rödler is senior partner at PricewaterhouseCoopers Austria. Companies of this group invoiced Erste Group Bank AG in total EUR 108,617.43 for consulting mandates.

The following amounts of compensation were paid to the individual members of the supervisory board:

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
Genova Juan Maria Nin, 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.

The compensation of the supervisory board members depends on the individual's responsibilities, the business volume and the company's financial situation.

Based on a resolution of the annual general meeting held on 12 May 2009, the supervisory board at its constituting meeting set out the following annual compensation structure:

in EUR	Number	Allowance per person	Total allowance
President	1	50,000	50,000
Vice Presidents	2	37,500	75,000
Members	8	25,000	200,000
Total	**11**		**325,000**

Since one member of the supervisory board was not able to participate at the supervisory board meeting, he was not paid out of any amount of compensation.

39) Collateral

The following assets were pledged as security for liabilities:

in EUR million	2009	2008
Loans and advances to credit institutions	740	1,082
Loans and advances to customers	4,824	2,549
Trading assets	920	906
Other financial assets[1)]	7,662	8,671
Total	**14,146**	**13,208**

1) Other financial assets mainly consist of financial assets held to maturity, available for sale, at fair value through profit or loss.

The specific compensation of each member is calculated by dividing the annual allowance by twelve and multiplying the result by the number of months, served in the respective position during the year.

Collaterals were pledged in connection with securities repurchase transactions, securities lending with cash collateral and other collateral agreements.

The fair value of collateral received that may be repledged or resold even without the security provider`s default was EUR 3,196 million (31 December 2008: EUR 3,375 million). Of this total, collateral with a fair value of EUR 78 million (31 December 2008: EUR 200 million) was resold or repledged

40) Securities lending and repurchase transactions

	2009		2008	
in EUR million	Carrying amount of assets pledged as collateral	Carrying amount of liabilities	Carrying amount of assets pledged as collateral	Carrying amount of liabilities
Repurchase transactions	4,541	4,560	4,817	4,946
Securities lending agreement	432	0	497	0
Total	**4,973**	**4,560**	**5,314**	**4,946**

Assets received and transferred by Erste Group under sale and repurchase agreements are largely securities.

41) Risk management

41.1. Risk policy and strategy

It is a core function of every bank to take risks in a conscious and selective manner and to professionally manage such risks. Erste Group's proactive risk policy and strategy aims at achieving an optimal balance of risk and return in order to achieve a sustainable, high return on equity.

Erste Group uses a control and risk management system that is proactive and tailored to Erste Group's business and risk profile, which is based on a clear risk strategy consistent with the group's business strategy, focusing on early identification and management of risks and trends. In addition to meeting the internal goal of effective and efficient risk management, Erste Group's control and risk management system has been developed to fulfil external, and in particular, regulatory requirements.

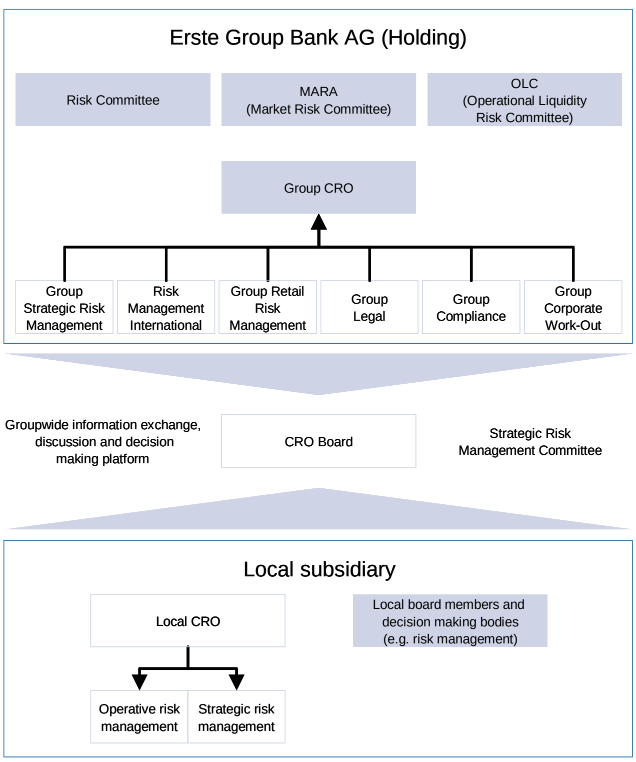
Given Erste Group's business strategy, the key risks for Erste Group are credit risk, market risk and operational risk. Erste Group also focuses on managing liquidity and business risks. In addition to managing these risks, Erste Group's control and risk management system takes full account of the range of other significant risks faced by Erste Group.

Erste Group Bank AG uses the Internet as the medium for publishing disclosures under Section 26 Banking Act and the Disclosure Regulation. Details are available on the website of Erste Group at www.erstegroup.com/ir.

41.2. Risk management organisation

Risk monitoring and control is achieved through a clear organisational structure with defined roles and responsibilities, delegated authorities, and risk limits. The following diagram presents an overview of Erste Group's risk management and control governance and responsibility structure.

Risk management –
Organisation and decision making bodies



Overview of Risk Management Structure

The Management Board, and in particular Erste Group's chief risk officer ('Group CRO'), has to perform its oversight function within Erste Group's risk management structure. Risk control and management functions within Erste Group are performed based on the business and risk strategies approved by the management board and the strategic risk framework. The Group CRO, working together with the chief risk officers of the subsidiaries, is responsible for the implementation of and adherence to the risk control and risk management strategies across all risk types and business lines. While the management board, and in particular, the Group

CRO ensures the availability of appropriate infrastructure and staff as well as methods, standards and processes to that effect, the actual identification, measurement, assessment, approval, monitoring, steering, and setting limits for the relevant risks are performed at the operating entity level within Erste Group. At the group level, the management board is supported by several divisions established to perform operational risk control functions and exercise strategic management responsibilities:

- **Group Strategic Risk Management;**
- **Risk Management International;**
- **Group Retail Risk Management;**
- **Group Corporate Workout;**
- **Group Legal; and**
- **Group Compliance**

Group Strategic Risk Management, which exercises the 'risk control' function, is responsible primarily for further refinement and Group-wide implementation of the risk management strategy as determined by the management board, and notably the infrastructure, methods and processes used. This unit is comprised of the departments 'Group OpRisk and Credit Risk Control', 'Group Enterprise-wide Risk Management and Reporting" and 'Group Market and Liquidity Risk Management" as well as the corporate function 'Basel II'. Group Strategic Risk Management also has a special interface function in relation to the individual group entities and their risk management units and optimises communication and information flow within Erste Group. See 'Risk Control – Overview of Risk Control Governance Structure" for a further discussion of the risk control management structure of the Erste Group.

Risk Management International is the operative credit risk management function of Erste Group Bank and is responsible for the formal and material verification, recommendation and approval of all credit risks of Erste Group Bank as a holding company. Risk Management International is also responsible for credit risk management for the GCIB segment as well as all credit applications where the amount involved exceeds the approval limits granted to the respective subsidiary. This unit covers certain customer groups/asset classes from a credit risk perspective where a top-level, group-wide review is required. These asset classes are country risks, sovereigns, other credit institutions, securitisations (ABS and CDO), large corporates, and real estate risks. Risk Management International provides specific credit risk reports on the aforementioned centrally managed portfolios of Erste Group Bank as a holding company and is in charge of process development for credit risk management and of the implementation of group standards for these asset classes. Risk Management International is also responsible for establishing and monitoring appropriate credit analysis processes and systems at the subsidiary level and coordinating and reviewing the credit and project analysis adopted across the business.

Group Retail Risk Management focuses on retail business, which is Erste Group's primary business. It coordinates at group level retail risk management processes and standards. Operational risk management functions for Erste Group's retail operations are performed at the local level.
Group Corporate Workout is responsible for restructuring of accounts in the Group Large Corporates (GLC) and Group Real Estate (GRE) divisions. An important additional task for the division is to draw up a uniform procedure and policy on restructurings and work-outs for the whole Erste Group.

Group Legal, in addition to performing the functions of a central legal department, also has responsibility for Anti Money Laundering Compliance, which is undertaken through the anti-money laundering compliance unit. Group Compliance is responsible for the implementation of and adherence to the Standard Compliance Code of the Austrian banking industry ('SCC') and the compliance-related provisions of the Wertpapieraufsichtsgesetz 2007.
In addition to the risk management activities performed at the Erste Group Bank level in its special role as a holding company, each subsidiary also has a risk control and management unit, the responsibilities of which are tailored to the applicable local requirements. Each subsidiary's risk control and management unit is headed by the respective entity's chief risk officer.

Group Coordination of Risk Management Activities

With the purpose of carrying out risk management activities within Erste Group, certain committees have been established, including the following:

- **Risk Committee;**
- **CRO Board;**
- **Strategic Risk Management Committee;**
- **Group Operational Liquidity Committee; and**
- **Market Risk Committee.**

The Risk Committee, which consists of the Management Board and senior managers of Erste Group Bank, is the most senior committee in Erste Group Bank. It is responsible for the approval of methods and processes of risk control and management as well as for the risk infrastructure. The Risk Committee also monitors the capital base and allocates capital at the macro level and determines the risk framework on a group-level. As the central risk control body, the Risk Committee is frequently and regularly briefed on the risk status, both retrospectively and prospectively, and across all risk types. The Risk Committee analyses the current status as well as any trends and makes management decisions at the highest level.

The CRO Board and the Strategic Risk Management Committee are responsible for consistent coordination and implementation of risk management activities within Erste Group, including the Sparkassen Haftungsverbund. The CRO Board is made up of the Group CRO and the chief risk officers of the subsidiaries in the Erste Group. Chaired by the Group CRO, the CRO Board has responsibility for the group-wide coordination of risk management and for ensuring uniformity of risk management standards across Erste Group. The Strategic Risk Management Committee, which is made up of the division heads of the strategic risk management department at each bank, provides support to the CRO Board in decision-making on current risk-related topics.

Erste Group has established committees at the holding level that are specifically responsible for monitoring and managing two key risk categories:

- The Group Operational Liquidity Committee ('Group OLC') is responsible for the day-to-day management of the global liquidity position of Erste Group. It analyses the liquidity situation of Erste Group on a regular basis and reports directly to the Group Asset Liability Committee ('Group ALCO'). It also proposes measures to the Group ALCO within the scope of the management policies and principles laid down in the Liquidity Risk Management Rule Book. Furthermore, members of the Group OLC are points of contact for other departments or Erste Group members for liquidity-related matters. Each local bank has its own local operational liquidity committee. The detailed roles and responsibilities of the Group OLC are described in the Liquidity Risk Management Rule Book. For additional information on the Group ALCO, see 'Liquidity Risk – Organisation and reporting'.

- The Market Risk Committee ('MRC') is the main steering body for all risks related to capital market trading operations in Erste Group. The MRC meets quarterly, approves group-wide market risk limits and elaborates on the current market situation. The members of the MRC are the Group CRO, the board member responsible for Group Capital Markets, the Head of Group Capital Markets, head of Group Strategic Risk Management, the Head of Group Market and Liquidity Risk Management and the head of Group Market Risk Control.

In addition, committees established at local level, e.g. the *Risikomanagementbeirat*, carry out a common risk approach in the savings banks. For Austria, Erste Group Bank as the holding company also performs some shared-services according to Group standards, including for example risk parameter estimation and validation.

As a result of the principle of segregation of risk origination and risk control, at every level of the risk management structure of Erste Group—particularly concerning market and credit risks—the risk management and control functions are exercised independently of the front office functions. Local operative risk management divisions carry out this control function.

41.3. Risk Control

Overview of Risk Control Governance Structure

The Group Risk Management unit performs the function of the central and independent risk control unit required by Section 39 (2) of the Austrian Banking Act. One objective of Group Strategic Risk Management, a unit that is independent from the business units, is to ensure that all risks measured or taken are within the limits approved by the Management Board.

Group OpRisk and Credit Risk Control, which is a sub-unit of the Group Strategic Risk Management, is in charge of management of operational risks and fraud, key tasks regarding Erste Group's credit risk methods and rating models and monitoring compliance with relevant credit risk limits. The Group Enterprise-wide Risk Management and Reporting department, which is also a sub-unit of the Group Strategic Risk Management, has responsibility for enterprise-wide risk management, the group data pool and the group-wide credit risk reporting. Enterprise-wide risk management, which is a sub-unit of the Group Enterprise-wide Risk Management and Reporting, is in charge of the essential elements of the risk management framework and Erste Group's risk policy principles which ensure adequate guidance on all risk-related matters. Furthermore, this unit is responsible for Group's ICAAP, planning of risk and risk costs, risk-weighted asset management as well as stress testing and risk simulation. The group-wide daily calculation, analysis and reporting of market and liquidity risks is provided by the Group Market and Liquidity Risk Management department of Group Strategic Risk Management. Ongoing risk calculations are performed using models, the quality of which is continually refined by this department.

Risk control process

Erste Group's independent risk control process consists of five main steps:

Risk identification

Risk identification at Erste Group refers to the detection of all relevant existing and potential risks related to banking operations, with particular emphasis on the use of a systematic and structured approach towards risk identification. The aim of this process is the permanent, timely, rapid, complete and cost-effective identification of each individual risk that has a bearing on the achievement by Erste Group of its business targets. Risk identification process is concerned not only with the early detection of risks, but also with the recognition of all sources of risks in as comprehensive a manner as possible.

Risk measurement
Risk measurement at Erste Group refers to the valuation and analysis of all quantifiable risks using statistical methods. In addition, stress scenarios are defined, with the goal of quantifying the losses that may be triggered by extremely adverse, rare, however plausible events. The information gained from stress test scenarios complements Value-at-Risk ('VaR') results, making it easier to predict the effects of potential extreme market movements on Erste Group.

Risk aggregation
Risk aggregation at Erste Group refers to the compilation of the results of risk measurement for each individual risk type (taking into account any diversification effects) to determine the aggregate potential loss based on the assumption of all of the relevant individual risks. The resulting aggregate measure for potential loss is known as economic capital (representing VaR at a confidence level of 99.95% over a one-year time period). As part of the process for determination of Erste Group's risk-bearing capacity, following a multi-stage process, the aggregate total potential loss (i.e., economic capital) is compared against the resources (profitability, reserves, equity and subordinated liabilities) available to cover potential losses.

Risk limit-setting
Risk limit-setting Erste Group refers to the setting of a loss ceiling by the management through the Risk Committee based on the periodic determination of risk-bearing capacity, which takes into account the group's equity base and profitability status.

Risk reporting
Risk reporting at Erste Group refers to the continuous reporting of the risk measurement results for each individual risk type to management.

41.4. Group-wide risk and capital management

Overview
Erste Erste Group has implemented a risk and capital adequacy assessment framework as required under Pillar 2 of the Basel framework. Within ICAAP, capital adequacy is reported both in terms of Pillar 1 and Pillar 2 requirements.

Under the umbrella of ICAAP, stress testing and modelling of risks, in particular credit risks, is undertaken based on the assessment of macroeconomic developments and trends in the markets where Erste Group operates.

The design of Erste Group's ICAAP is tailored to the group's business and risk profile, reflects the strategic goal of protecting senior debt holders and ensuring sustainability of the organisation. A comprehensive, economic and proactive approach is chosen with the purpose of ensuring that Erste Group remains adequately capitalised. ICAAP forms a key steering and management tool and is integral to Erste Group's control and planning framework.

Within ICAAP, Erste Group's material risks are compared against the capital/coverage potential according to internal ICAAP standards. The quarterly capital adequacy calculation undertaken by Erste Group serves not only as a tool to assess the actual capital adequacy of the group but also to provide a forward-looking picture, make recommendations and start taking actions as may be necessary for a sustainable sound capitalisation.

The Management Board and the risk management committees are briefed regularly and at least on a quarterly basis in relation to the results of the capital adequacy calculation. The report includes movements in risks and available capital / coverage potential, the degree of utilisation of the risk limit and overall status of ICAAP according to the signalling system. The ICAAP report also includes a comprehensive forecast of risk-weighted assets and capital adequacy.

Risk Assessment

According to ICAAP, relevant risks are continuously monitored and at least annually reassessed. Based on the business and risk profile of Erste Group, currently the three main types of banking risks, credit risk, market risk and operational risk, are considered in the internal capital assessment. Credit risk accounts for more than 80% of the total economic capital requirement. Reflecting what management believes is the conservative risk management policy and strategy of Erste Group, Erste Group does not offset diversification effects between these three risk types. The economic capital requirement for unexpected losses is computed on a one-year time horizon with 99.95% confidence level, which reflects the implied default risk consistent with a long-term credit rating of AA (double A).

Other risk types, in particular liquidity and business risks, are managed by means of a proactive management framework that includes forward-looking elements, stress testing, trigger levels and signalling systems. See 'Liquidity Risk' for liquidity risk management within Erste Group.

Capital/Coverage Potential

The capital or coverage potential required to cover economic risks and unexpected losses is sub-divided based on the characteristic of their components, such as the legal qualification of the source of capital and the tenor of subordinated debt. The coverage potential must be sufficient to absorb unexpected losses resulting from the group's operations. The capital and capital structure is managed by dedicated units within Erste Group. Requirements for additional capital or changes in the capital structure could, among other things, be triggered by ICAAP.

Stress Testing and Risk Modelling

In addition to the application of the 99.95% confidence level for economic capital, Erste Group forecasts risks (on a going-concern basis) and models and undertakes stress tests according to specific predefined scenarios. The parameters applied for simulations are derived from continuous observation of both macroeconomic and market trends as well as trends observed and potential scenarios. Results are reflected in the forecast by means of setting additional economic capital requirements.

In stress testing, tools such as the Enterprise Risk Assessment Template or Economic Stress Assessment Tool are used to support the process, which represents a combined bottom-up / top-down approach. In addition, Erste Group leverages the intimate knowledge of its professionals located in the different regions to further adapt scenarios and stress parameters, e.g. to the particular developments in the respective region or segment. Scenarios simulated individually take into account, among other things, developments in certain regions, industries and product types. The adequacy of scenarios and stress parameters is reviewed on a quarterly basis. Default probabilities and movements in collateral values, loss rates or credit conversions are modelled, in addition to associated profit and loss sensitivities.

Erste Group participates in a variety of stress test exercises, both at national (OeNB) and international (CEBS) level. The results of these stress tests indicated that Erste Group's regulatory capital was adequate.

Limit Setting and Monitoring

In addition to the credit limits set by the existing limit frame of the group, Erste Group has defined a Maximum Risk Exposure Limit ('MREL') which, along with the signal system, serves to ensure that there is sufficient time (at least one year) for the management to plan and execute actions to ensure capital adequacy and sustainability going forward.

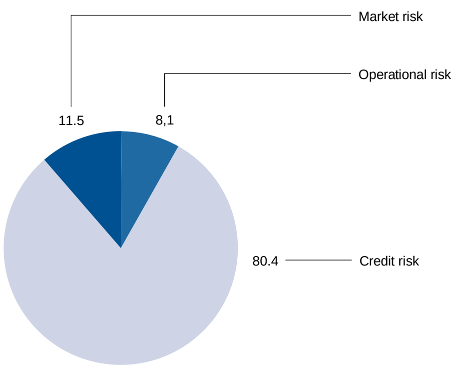
In case of unforeseeable events, such as a crisis, an Emergency Response Plan ('ERP') has been defined by Erste Group. The ERP includes a predefined set of tools as well as processes, resources, roles and responsibilities, with the goal of responding immediately and effectively to any such crisis. Measures take into account not only capital, but also the liquidity position and strategy of Erste Group.

Analyses have not evidenced any material concentration risk in the group. This is the result of an efficient limit management as well as a consequence of the business strategy of Erste Group which focuses on retail business and regional diversification in Central and Eastern Europe.

Erste Group's Aggregate Capital Requirement by Risk Type

The following diagram presents the composition of the economic capital requirement as of 31 December 2009 according to the type of risk.

ICAAP economic capital requirements in %, 2009



41.5. Credit risk

Definition and overview

Credit risk arises in Erste Group's traditional lending and investment business, comprising losses incurred as a result of default by the borrowers or by the need to set aside provisions as a result of the deteriorating credit quality of certain borrowers, as well as from trading in market risk instruments (counterparty risk). Country risks are also recognised implicitly in the calculation of credit risk. Operational credit decisions are made by the decentralised credit risk management units, namely, the Risk Management International at group level and the credit risk management units at each of the banking subsidiaries. See 'Risk Management Organisation—Overview of Risk Management Structure' for a detailed explanation of the role and responsibilities of Risk Management International.

The central database used for credit risk management is the group data pool. All data relevant to credit risk management, performance management and determination of risk-weighted assets and the regulatory capital requirement are regularly input into this database.

The Group Enterprise-wide Risk Management and Reporting department uses the group data pool for centralised credit risk reporting. This ensures centralised analysis and application of ratios according to unified methods and segmentation across Erste Group, using COGNOS as the group-wide reporting tool. The credit risk reporting comprises of regular reports on Erste Group's credit portfolio for external and internal audiences and permits continuous monitoring of credit risk developments, enabling management to take control measures. In-house recipients of these reports include, above all, the Supervisory Board and Management Board of Erste Group Bank, as well as the risk managers, business unit directors and internal audit staff.

The organisational unit 'Credit Limit System' is in charge of the rollout and continual technical improvement of a group-wide online limit system for capping counterparty risk arising from treasury transactions, as well as for surveillance of credit risk from exposure to clients that fall into the asset segments 'financial institutions', 'sovereigns' and 'international large corporates' that work with several different members of Erste Group.

Basel II

Having passed the required audit conducted by the Austrian supervisory authority in 2006, Erste Group (including almost all Haftungsverbund savings banks and Česká spořitelna) successfully qualified for Basel II advanced internal ratings based (IRB) approach to the measurement of credit risk, effective from the entry of the new regulations into force on 1 January 2007. For credit risk, Erste Group applies the Advanced IRB Approach in the retail segment and the Foundation IRB Approach in all other Basel segments. In 2008, these standards were also adopted by Erste Bank Hungary and Slovenská sporitel'ňa and since 1 July 2009 by Erste Bank Croatia (on a consolidated level).

According to the current rollout plan for Erste Group, the transition from the Standardised Approach to the IRB Approach is to be made in 2010 for s-Wohnbaubank in Austria, for Erste Bank Croatia (on a local level) and in the subsequent years for BCR, Erste Bank Serbia and Erste Bank Ukraine.

Internal rating system

Overview

Erste Group has business and risk strategies in place for lending policies and credit approval processes, which are reviewed and adjusted at least on a yearly basis. The business and risk strategy is a forward-looking, written definition of strategic risk parameters to be achieved by Erste Group, which is based on the analysis of the then current situation and the assessment of the risks associated with the lending business. The business and risk strategy covers the entire lending business, taking into account the nature, scope and risk level of the transactions and the counterparties involved. The strategy includes planning based on credit types, industry focuses, geographic dispersion (including regions and countries) and the distribution of the exposures by rating and size. In addition to the foregoing parameters, credit approval is also based on the creditworthiness of the customer, the type of credit, collateral, covenant package and other risk mitigation factors involved.

Assessment of counterparty default risk within Erste Group is based on probability of default ('PD'). For each credit exposure and lending decision, Erste Group assigns an internal rating, which is a unique measure of counterparty default risk within each entity of the Erste Group (an 'Internal Rating').

The main purpose of the Internal Ratings is to affect the decision-making for lending and the terms of the credit facility to be extended; however, Internal Ratings also determine the level of decision-making authority within Erste Group and the monitoring procedures for existing exposures. At a quantitative level, Internal Ratings drive the level of required risk pricing and risk provisions. For IRB compliant entities of Erste Group, Internal Ratings are a key element of risk weighted assets' calculation and Internal Capital Adequacy Assessment Process ('ICAAP').

Internal Ratings take into account all available essential information for assessment of counterparty default risk. For non-retail borrowers, Internal Ratings take into account financial strength of the counterparty, possibility for external support, company information, and external credit history information, where available. For the wholesale segment, Internal Ratings also take into account market information such as external rating or credit spreads. For retail clients, Internal Ratings are based mainly on behavioural and application scoring, but also utilise demographic and financial information, supplemented by credit bureau information, where available. Rating ceiling rules on credit quality are applied based on country domicile and membership in a group of economically related entities.

All scorecards, whether retail or non-retail, are regularly validated based on group-wide standard methodology. Validations are provided using statistical techniques in respect to default prediction performance, rating stability, data quality, completeness and relevancy of the credit documentation and user acceptance. The results of this validation process are reported to the management and regulatory bodies. In addition to the validation process, the Group applies monthly monitoring process on the performance of rating tools, reflecting the month-to-month new defaults and any early delinquencies.

Erste Group has established a Model Committee which reports to the CRO Board. All rating processes, definitions, methodologies and new models in the group are approved by the Model Committee ensuring group-wide integrity and consistency. All development activities are coordinated by the organisational unit 'Group Rating Methods'.

Risk Classes and Categories
The classification of credit assets into risk classes is based on Erste Group's Internal Ratings. Erste Group uses two internal risk-scales for risk classification: for customers that have not defaulted, a risk scale of eight risk classes (for retail) and 13 risk classes (for all other segments) is used. Defaulted customers are classified in one risk class. For newly acquired subsidiaries of Erste Group, the respective local risk classification is mapped to group standard classifications until internal rating systems are introduced.

For the purpose of group-steering and reporting, Erste Group developed a framework to map the risk grades into four different risk categories, as follows:

Low risk: Typically regional customers with a well-established and rather long standing relationship with Erste Group or large internationally recognised customers. Strong and good financial health and no foreseeable financial difficulties. Retail clients with long relationship with the bank, or clients with a wide product pool use. No late payments currently or in the most recent twelve months. New business is generally with clients in this risk category.

_**Management attention:** Vulnerable non-retail clients, which may have overdue payments/defaults in their credit history or which may encounter debt repayment difficulties in the medium-term. Retail clients with limited savings or probable past payment problems triggering early collection reminder. These clients typically have a good recent history and no current delinquency.

_**Substandard:** The borrower is vulnerable to negative financial and economic developments; such loans are managed in specialised risk management departments.
_**Non-performing:** One or more of the default criteria under Basel II are met: full repayment unlikely, interest or principal payments on a material exposure more than 90 days past due, restructuring resulting in a loss to the lender, realisation of a loan loss, or initiation of bankruptcy proceedings. For purposes of analysing non-performing loans, in Austria Erste Group applies the 'customer view'. Accordingly, if an Austrian customer defaults on one product then all of that customer's performing products are classified as non-performing. For corporate borrowers in CEE, the customer view is also applied. However, in the retail and SME segment in CEE, Erste Group uses the 'product view', so that only the product actually in default is counted as an NPL whereas the other products of the same customer are considered performing.

Erste Bank calibrates the PDs for the diverse client portfolio (ranging from private individuals to multi-national corporates and across different countries) in order to provide sufficiently distinct rating distribution of all portfolios and to support underwriting and customer relationship management with the best risk differentiation possible. A regular validation is undertaken at each entity level to assure a good calibration for each portfolio. Accordingly, rising PDs are expected in the near future.

Credit Risk Review and Monitoring

Credit Monitoring
In order to manage the credit risk for large corporates, banks, sovereigns and country risk, credit limits are established to reflect the maximum exposure Erste Group is willing to take on that particular customer or the group of connected customers. All credit limits and the exposures booked within the limits are reviewed at least once a year. For borrowers for which no credit limits have been established (corporates, real estate), formal monitoring is done through regular credit reviews. For small corporates and retail customers, monitoring and credit review is based on a rating model, which is updated monthly. For weaker small corporates (with a risk category of 'Management attention' or 'Substandard'), a continuous review process is undertaken.

Portfolio reports for asset classes and business lines are prepared on a regular basis. Watch-list meetings or remedial committee-meetings are held on a regular basis to discuss customers with weak ratings or to discuss pre-emptive measures to help a particular client avoid default. Upon the assignment to Management Attention risk category or worse, responsibility for the management of the exposure is transferred from the business line to the credit risk management.

For retail business, local operational risk management is responsible to undertake these monitoring activities and fulfil the minimum requirements of Group Retail Risk Management.

Credit Exposure

Credit exposure relates to the following balance sheet items:

_ **loans and advances to credit institutions**
_ **loans and advances to customers;**
_ **debt securities held in trading, at fair value through profit or loss, available for sale and held-to-maturity**
_ **derivatives and**
_ **credit risks held off-balance sheet (including undrawn credit commitments).**

The credit exposure comprises the gross amount without taking into account any collateral held, other credit enhancements or credit risk mitigating transactions.
The total credit exposure of Erste Group increased by 2.1 % or EUR 4.6 billion, from EUR 215.7 billion at 31 December 2008 to EUR 220.3 billion at 31 December 2009.

Erste Group's total credit exposure is presented below divided into the following classes:

_ **credit exposure by industry;**
_ **credit exposure by risk category:**
_ **credit exposure by industry and risk category;**
_ **credit exposure by region and risk category; and**
_ **credit exposure by business segment and risk category.**

Following this detailed breakdown of credit exposure, Erste Group presents a detailed breakdown of its non-performing assets and risk provisions, and a detailed breakdown of Erste Group's loans and advances to customers by business segment.

Exposure by Industry

The following tables present Erste Group's total credit exposure by industry, broken down into on- and off-balance sheet items, as of each period indicated.

Credit exposure by industry 2009

in EUR million	Total loans and advances to credit institutions and customers (incl.debt securities and derivatives)	Guarantees/ letters of credit Undrawn commitments	Total exposure
Agriculture and forestry	1,932	244	2,176
Mining	602	145	747
Manufacturing	11,109	3,943	15,052
Energy and water supply	2,756	907	3,664
Construction	6,717	2,983	9,701
Trade	9,304	2,606	11,910
Transport and communication	4,689	889	5,578
Hotels and restaurants	4,301	532	4,833
Financial and insurance services	41,556	10,872	52,428
Real estate and housing	19,665	2,356	22,022
Services	6,538	1,235	7,773
Public administration	20,976	5,133	26,108
Education, health and art	2,300	386	2,686
Private households	48,764	4,898	53,662
Other	1,256	696	1,951
Total	**182,465**	**37,826**	**220,291**

Credit exposure by industry 2008

in EUR million	Total loans and advances to credit institutions and customers (incl.debt securities and derivatives)	Guarantees/ letters of credit Undrawn commitments	Total exposure
Agriculture and forestry	1,778	243	2,021
Mining	715	119	834
Manufacturing	10,614	5,265	15,879
Energy and water supply	2,790	672	3,461
Construction	5,731	3,633	9,364
Trade	10,023	3,623	13,646
Transport and communication	4,842	1,261	6,102
Hotels and restaurants	3,797	715	4,512
Financial and insurance services	41,686	8,865	50,551
Real estate and housing	16,584	4,470	21,054
Services	6,284	1,562	7,846
Public administration	20,906	2,918	23,824
Education, health and art	2,883	509	3,392
Private households	47,362	3,409	50,771
Other	2,313	97	2,412
Total	**178,308**	**37,361**	**215,668**

Credit Exposure by Risk Category

The following table presents the total credit risk exposure of Erste Group by risk category as of 31 December 2009, compared with total credit exposure as of 31 December 2008.

Credit exposure by risk category

in EUR million	Low risk	Management attention	Substandard	Non-performing	Total exposure
Total exposure at 31 Dec 2009	176,622	26,876	7,832	8,961	220,291
Share of total exposure	80.2%	12.2%	3.6%	4.1%	100.0%
Total exposure at 31 Dec 2008	177,762	25,692	5,869	6,345	215,668
Share of total exposure	82.4%	11.9%	2.7%	2.9%	100.0%
Change in total exposure in 2009	(1,135)	1,184	1,957	2,616	4,623
Change	(0.6)%	4.6%	33.4%	41.2%	2.1%

From 31 December 2008 to 31 December 2009, the percentage of total exposure in the low risk category decreased, while exposure increased in the other categories. Non-performing loans as a share of total exposure (*i.e.*, 'NPL ratio') showed a marked increase from 2.9% to 4.1 %. Of Erste Group's total credit exposure, 80.2 % constituted the best risk category and 12.2 % was in the management attention category; the combined proportion of the two poorer risk categories rose from 5.6% to 7.7 % from 31 December 2008 to 31 December 2009

Credit Exposure by Industry and Risk Category

The following tables present the total credit risk exposure of Erste Group broken down by industry and risk category as of 31 December 2009 and 31 December 2008, respectively.

Credit exposure by industry and risk category in 2009

2009	Gross Exposure				
in EUR million	Low risk	Management attention	Substandard	Non-performing	Total exposure
Agriculture and forestry	1,209	664	147	156	2,176
Mining	537	97	11	102	747
Manufacturing	8,734	4,006	1,184	1,128	15,052
Energy and water supply	2,810	651	83	119	3,664
Construction	6,371	2,117	617	595	9,701
Trade	7,399	2,870	644	997	11,910
Transport and communication	3,686	1,192	325	375	5,578
Hotels and restaurants	2,249	1,699	286	599	4,833
Financial and insurance services	50,350	1,294	327	457	52,428
Real estate and housing	15,961	4,308	950	803	22,022
Services	5,751	1,277	234	511	7,773
Public administration	25,555	522	28	4	26,108
Education, health and art	2,026	492	62	106	2,686
Private households	43,181	5,605	1,901	2,974	53,662
Other	800	81	1,034	36	1,951
Total	**176,622**	**26,876**	**7,832**	**8,961**	**220,291**

Credit exposure by industry and risk category in 2008

2008	Gross Exposure				
in EUR million	Low risk	Management attention	Substandard	Non-performing	Total exposure
Agriculture and forestry	1,139	588	156	138	2,021
Mining	735	66	21	11	834
Manufacturing	10,908	3,501	773	697	15,879
Energy and water supply	2,779	509	99	74	3,461
Construction	6,682	1,861	460	362	9,364
Trade	9,190	3,313	448	694	13,646
Transport and communication	4,239	1,262	349	252	6,102
Hotels and restaurants	2,495	1,278	270	469	4,512
Financial and insurance services	48,306	1,775	105	364	50,551
Real estate and housing	16,059	3,995	410	590	21,054
Services	6,055	1,192	174	425	7,846
Public administration	23,015	776	20	13	23,824
Education, health and art	2,423	566	270	132	3,392
Private households	42,394	4,978	1,279	2,120	50,771
Other	1,342	32	1,033	4	2,412
Total	**177,762**	**25,692**	**5,869**	**6,345**	**215,668**

Credit Exposure by Region and Risk Category

The geographic analysis of credit exposure is based on the risk country of the borrower. Accordingly, the distribution among Erste Group entities of the credit exposure by geography differs from the composition of credit risk in terms of reporting segments of Erste Group.

The following table presents the total credit risk exposure of Erste Group broken down by region as of 31 December 2009 and 31 December 2008, respectively.

Credit exposure by region and risk category in 2009

2009 in EUR million	Gross Exposure Low risk	Management attention	Substandard	Non-performing	Total exposure
Core market	**138,774**	**24,176**	**7,330**	**8,097**	**178,378**
Austria	72,963	10,402	2,510	3,734	89,609
Croatia	6,868	2,047	299	361	9,575
Romania	9,634	3,625	2,195	1,617	17,072
Serbia	406	433	7	63	909
Slovakia	9,903	1,161	314	462	11,839
Slovenia	1,814	208	119	166	2,306
Czech Republic	26,584	4,301	1,132	930	32,946
Ukraine	197	550	206	116	1,069
Hungary	10,407	1,449	549	648	13,052
Other EU	**27,170**	**1,673**	**237**	**468**	**29,548**
Other industrialised countries	**5,597**	**378**	**131**	**238**	**6,344**
Emerging markets	**5,080**	**649**	**133**	**158**	**6,021**
Southeastern Europe/CIS	1,031	368	79	137	1,614
Asia	1,774	45	40	7	1,865
Latin America	747	46	9	11	814
Middle East/Africa	1,529	191	5	4	1,728
Total	**176,622**	**26,876**	**7,832**	**8,961**	**220,291**

Credit exposure by region and risk category in 2008

2008 in EUR million	Gross Exposure Low risk	Management attention	Substandard	Non-performing	Total exposure
Core market	**138,299**	**23,354**	**5,418**	**5,719**	**172,789**
Austria	70,374	8,816	2,277	3,667	85,135
Croatia	6,239	1,742	189	187	8,358
Romania	9,347	5,089	1,718	532	16,686
Serbia	419	556	27	45	1,046
Slovakia	11,325	1,081	259	281	12,946
Slovenia	1,916	286	96	81	2,379
Czech Republic	27,354	3,689	542	610	32,195
Ukraine	527	523	56	12	1,119
Hungary	10,798	1,571	253	303	12,925
Other EU	**26,253**	**1,287**	**72**	**343**	**27,956**
Other industrialised countries	**7,216**	**385**	**328**	**240**	**8,170**
Emerging markets	**5,993**	**666**	**51**	**44**	**6,753**
Southeastern Europe/CIS	**1,807**	**212**	**10**	**17**	**2,046**
Asia	1,554	122	40	3	1,719
Latin America	837	81	0	15	933
Middle East/Africa	1,796	251	0	9	2,056
Total	**177,762**	**25,692**	**5,869**	**6,345**	**215,668**

The increase in credit exposure by EUR 4.6 billion from 31 December 2008 to 31 December 2009 reflected an increase of EUR 4.4 billion, or 5.3%, in Austria and of EUR 1.1 billion, or 1.3%, in the CEE core markets, coupled with an increase of EUR 1.6 billion, or 15.7% in the other EU member states (EU 27 excluding core markets), a decrease in other industrialised countries of EUR 1.8 billion, or 22.3%, and a decrease of EUR 732 million, or 10.8%, in the emerging markets. The exposure increase in CEE resulted from increases in Croatia and the Czech Republic.

The countries of Erste Group's core market and the EU accounted for 94.4% of credit exposure. At 2.7%, credit exposure in emerging markets remained of minor significance for the Group total.

Credit Exposure by business Segment and Risk Category

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

The following tables present the total credit risk exposure of Erste Group broken down by reporting segment as of 31 December 2009 and 31 December 2008, respectively.

Credit Exposure by business Segment and Risk Category in 2009

2009	Gross Exposure				
in EUR million	Low risk	Management attention	Substandard	Non-performing	Total exposure
Retail & SME	118,844	21,092	5,505	7,843	153,283
Austria	67,151	11,382	1,758	4,127	84,419
EB Österreich	29,900	3,491	514	1,316	35,221
Savings Banks	37,252	7,891	1,244	2,811	49,198
CEE	51,693	9,709	3,747	3,716	68,865
Czech Republic	22,204	3,221	693	812	26,929
Romania	8,290	2,659	1,901	1,492	14,342
Slovakia	8,472	882	267	427	10,048
Hungary	7,101	1,091	454	556	9,202
Croatia	5,079	1,336	255	297	6,967
Serbia	361	339	6	42	747
Ukraine	187	183	171	90	630
GCIB	34,332	5,441	1,349	1,042	42,165
Group Markets	18,161	99	161	10	18,430
Corporate Center	5,285	244	817	66	6,413
Total	**176,622**	**26,876**	**7,832**	**8,961**	**220,291**

Credit Exposure by business Segment and Risk Category in 2008

2008 in EUR million	Gross Exposure Low risk	Management attention	Sub-standard	Non-per-forming	Total exposure
Retail & SME	118,607	19,931	4,241	5,665	148,444
Austria	67,181	9,618	1,418	3,874	82,091
EB Österreich	30,545	3,031	363	1,245	35,185
Savings Banks	36,636	6,587	1,055	2,629	46,906
CEE	51,426	10,313	2,823	1,791	66,353
Czech Republic	25,078	2,576	421	539	28,613
Romania	7,297	3,769	1,676	502	13,243
Slovakia	7,188	829	234	275	8,526
Hungary	6,858	1,198	245	248	8,549
Croatia	4,295	1,272	171	186	5,923
Serbia	358	342	21	29	750
Ukraine	353	327	55	12	747
GCIB	39,554	5,377	681	638	46,250
Group Markets	15,277	240	353	42	15,912
Corporate Center	4,325	145	593	0	5,063
Total	**177,762**	**25,692**	**5,869**	**6,345**	**215,668**

Non-performing assets and risk provisions

Credit exposures are classified and reported as non-performing loans ('NPL'), if one or more of the default criteria under Basel II are met: full repayment unlikely, interest or principal payments on a material exposure more than 90 days past due, restructuring resulting in a loss to the lender, realisation of a loan loss, or initiation of bankruptcy proceedings.

For the definition of non-performing loans, in Austria Erste Group applies the 'customer view'. Accordingly, if an Austrian customer defaults on one product, then the performing products of that customer are also classified as non-performing. For corporate borrowers in CEE, the customer view is also applied. However, in the Retail & SME segment in CEE, Erste Group uses the 'product view', so that only the product actually in default is counted as an NPL, whereas the other products of the same customer are considered performing.

Erste Group provisions for credit risk, with risk provisions divided into specific risk provisions and portfolio risk provisions. Erste Group has established a common framework which defines minimum standards and principles for risk provisioning principles related to risk infrastructure, processes and quantification of risk provisioning. It also puts risk provisioning into overall economic perspective in terms of financial planning and ratios relevant for the group's performance management. The policy describes also underlying methodological standards for specific risk provisions and portfolio risk provisions, respectively. Through a standardised process, portfolio risk provisions are created for the portion of exposure that is not covered by collateral or expected recoveries. This particularly includes methodologies, processes and guidance regarding necessary policies for operative risk management.

The following table shows the risk provisions divided into specific and portfolio provisions and provisions for guarantees

in EUR million	2009	2008
Specific provisions	3,777	3,002
Portfolio provisions	1,177	781
Provision for guarantees	265	127
Total	**5,219**	**3,910**

Risk provisions covered 58.3 % of reported NPL as of 31 December 2009. For the portion of NPL that is not covered by provisions, Erste Group believes there are sufficient levels of collateral and expected other recoveries.

In the twelve months ended 31 December 2009, NPL increased by EUR 2.6 billion, or 41.2 %, from EUR 6.3 billion at 31 December 2008 to EUR 9 billion at 31 December 2009. Erste Group has experienced a declining growth rate of NPL formation during the second half of 2009. Risk provisions were increased by EUR 1.3 billion, or 33.5 %, from EUR 3.9 billion at 31 December 2008 to EUR 5.2 billion at 31 December 2009. These movements resulted in a net reduction of 3.3 percentage points in NPL provision coverage.

The following tables show the coverage of non-performing loans across the reporting segments by provisions (excluding collateral) as of 31 December 2009 and 31 December 2008, respectively. The differences in provisioning levels for the segments result from the risk situation in the respective markets, different levels of collateralisation as well as the local legal environment and regulatory requirements.

The NPL ratio is calculated by dividing non-performing exposure by total exposure. NPL coverage is calculated by dividing risk provisions by non-performing exposures. NPL coverage is calculated exclusive of any collateral.

Coverage of NPL by provisions

2009	Total exposure				
in EUR million	Non-performing	Total exposure	Risk provisions	NPL Ratio	NPL coverage
Erste Bank Oesterreich	1,316	35,221	734	3.7%	55.8%
Savings Banks	2,811	49,198	1,522	5.7%	54.1%
Austria	4,127	84,419	2,256	4.9%	54.7%
Czech Republic	812	26,929	510	3.0%	62.8%
Romania	1,492	14,342	857	10.4%	57.4%
Slovakia	427	10,048	316	4.3%	73.9%
Hungary	556	9,202	260	6.0%	46.7%
Croatia	297	6,967	236	4.3%	79.3%
Serbia	42	747	44	5.6%	104.9%
Ukraine	90	630	81	14.2%	90.9%
Central and Eastern Europe	3,716	68,865	2,303	5.4%	62.0%
Retail & SME	7,843	153,283	4,558	5.1%	58.1%
Group Large Corporates	430	11,578	390	3.7%	90.7%
Group Real Estates	443	10,749	187	4.1%	42.2%
International Business	170	19,838	111	0.9%	65.0%
Group Corporate and Investment Banking	1,042	42,165	687	2.5%	65.9%
Group Markets	10	18,430	2	0.1%	19.0%
Corporate Center	66	6,413	(27)[1]	1.0%	(40.8)%
Total	**8,961**	**220,291**	**5,220**	**4.1%**	**58.3%**

1) Negative amount due to consolidation effect

Coverage of NPL by provisions

2008 in EUR million	Total exposure Non-performing	 Total exposure	Risk provisions	NPL Ratio	NPL coverage
Erste Bank Oesterreich	1,245	35,185	680	3.5%	54.6%
Savings Banks	2,629	46,906	1,383	5.6%	52.6%
Austria	3,874	82,091	2,063	4.7%	53.3%
Czech Republic	539	28,613	322	1.9%	59.8%
Romania	502	13,243	532	3.8%	106.0%
Slovakia	275	8,526	226	3.2%	82.3%
Hungary	248	8,549	124	2.9%	50.1%
Croatia	186	5,923	176	3.1%	94.7%
Serbia	29	750	39	3.8%	135.7%
Ukraine	12	747	31	1.6%	263.8%
Central and Eastern Europe	1,791	66,353	1,451	2.7%	81.0%
Retail & SME	5,665	148,444	3,514	3.8%	62.0%
Group Large Corporates	235	14,031	154	1.7%	65.6%
Group Real Estates	219	10,154	109	2.2%	49.7%
International Business	184	22,065	132	0.8%	71.9%
Group Corporate and Investment Banking	638	46,250	395	1.4%	61.9%
Group Markets	42	15,912	1	0.3%	3.3%
Corporate Center	0	5,063	1	0.0%	157.3%
Total	**6,345**	**215,668**	**3,910**	**2.9%**	**61.6%**

Erste Group focuses on early identification of customers who are facing difficulties with payments or other loan-related obligations with the aim of restructuring their loans if the mid- to long-term outlook is positive. Erste Group believes that this can help to build customer loyalty for long-term relationships and cooperation. In principle, Erste Group follows a policy of restructuring by lengthening maturity and/or by deferring capital repayment but insisting on payment of interest.

Collateral obtained in foreclosure procedures are made available for sale in an orderly fashion, with the proceeds used to reduce or repay the outstanding claim. Generally, Erste Group does not occupy repossessed properties for its own business use.

Credit exposure and collateral

2009 in EUR million	Gross Exposure	Collaterals and other credit risk mitigation Total	 Guarantees	 Real estate
Central governments and central banks	26,682	87	84	0
Regional governments and local authorities	6,002	1,194	61	81
Administrative bodies and non-commercial undertakings	1,567	365	356	2
Multilateral development banks	130	0	0	0
International organisations	5	0	0	0
Institutions	31,111	1,193	278	85
Corporates	81,785	24,923	2,667	18,644
Retail & SME	68,448	36,191	210	31,925
Securitisation positions	3,218	0	0	0
Covered Bonds	1,343	0	0	0
Total	**220,291**	**63,955**	**3,657**	**50,736**

Credit exposure and collateral

2008 in EUR million	Gross Exposure	Collaterals and other credit risk mitigation Total	Guaran-tees	Real estate
Central governments and central banks	23,949	197	74	0
Regional governments and local authorities	5,699	1,096	55	96
Administrative bodies and non-commercial undertakings	1,081	235	227	0
Multilateral development banks	195	0	0	0
International organisations	0	0	0	0
Institutions	27,624	370	107	6
Corporates	87,775	31,292	3,003	13,806
Retail & SME	65,521	39,560	377	30,538
Securitisation positions	1,701	0	0	0
Covered Bonds	2,122	7	0	0
Total	**215,668**	**72,757**	**3,843**	**44,446**

The major types of collateral are mortgages on residential and commercial real estate, as well as guarantees. Among the other types of collaterals, financial collateral is the most common. The valuation of security takes into account the requirements for risk mitigation under Basel II.

The carrying amount of assets for which new terms were negotiated because they would otherwise have fallen into arrears or been impaired was EUR 2,101 million at 31 December 2009 (2008: EUR 1,013 million). Of this total, EUR 1,209 million (2008: EUR 380 million) related to the Corporate exposure class and EUR 892 million (2008: EUR 633 million) pertained to the Retail category (including SME). These are assets in the non-performing risk class where the renegotiation of terms caused a financial loss to the lending bank on a present value basis. At Erste Group this is used as a default criterion.

At 31 December 2009 and 31 December 2008, the balances of assets which were past due but for which specific provisions had not yet been established were as follows:

2009 in EUR million	Gross Exposure thereof 91-180 days past due	Gross Exposure thereof more than 180 days past due	Gross Exposure Total loans and advances past due	thereof collateralised thereof 91-180 days past due	thereof collateralised thereof more than 180 days past due	thereof collateralised Total loans and advances past due
Regional governments and local authorities	1	3	4	0	0	0
Administrative bodies and non-commercial undertakings	2	0	2	0	0	0
Institutions	6	3	9	0	0	0
Corporates	61	229	290	34	104	138
Retail & SME	104	191	295	47	127	174
Total	**173**	**427**	**600**	**81**	**231**	**312**

2008 in EUR million	Gross Exposure thereof 91-180 days past due	Gross Exposure thereof more than 180 days past due	Gross Exposure Total loans and advances past due	thereof collateralised thereof 91-180 days past due	thereof collateralised thereof more than 180 days past due	thereof collateralised Total loans and advances past due
Regional governments and local authorities	1	3	4	0	0	0
Institutions	3	0	3	0	0	0
Corporates	65	159	224	22	104	126
Retail (incl. SME)	84	373	457	42	128	170
Total	**153**	**536**	**688**	**64**	**232**	**297**

At 31 December 2009 and 31 December 2008, specific provisions existed for the following exposures:

2009 in EUR million	Total loans under specific provisions	thereof 91-180 days past due	thereof more than 180 days past due
Loans and advances to credit institutions	63	0	59
Loans and advances to customers	6,024	696	3,508
Total	**6,087**	**696**	**3,566**

2008 in EUR million	Total loans under specific provisions	thereof 91-180 days past due	thereof more than 180 days past due
Loans and advances to credit institutions	130	2	4
Loans and advances to customers	4,749	265	1,596
Total	**4,879**	**267**	**1,600**

All loans and other advances presented in the tables above were classified as non-performing. Provisions are as a rule established for loans and other advances that are more than 90 days past due. However, specific provisions are not established if the loans and other advances are covered by portfolio provisions or by adequate collateral.

Loans and advances to customers by business segment

The following tables present the customer loan book as of 31 December 2009 and 31 December 2008, excluding loans to financial institutions and commitments, by reporting segments, broken down by risk category, risk provisions, the non-performing loan coverage and NPL ratio. For the purpose of this section, 'NPL ratio' and 'NPL coverage' only relate to customer loans:

Loans and advances to customers by business segment

2009 in EUR million	Low risk	Manage-ment attention	Sub-standard	Non-per-forming	Total loans	Risk provisions	NPL coverage	NPL Ratio[1]
Retail & SME	77,484	18,512	5,018	7,570	108,584	4,417	58.3%	7.0%
Austria	46,429	10,115	1,504	3,943	61,990	2,160	54.8%	6.4%
EB Österreich	21,447	3,083	371	1,237	26,137	688	55.6%	4.7%
Savings Banks	24,982	7,032	1,133	2,706	35,853	1,472	54.4%	7.5%
CEE	31,056	8,397	3,514	3,627	46,594	2,256	62.2%	7.8%
Czech Republic	12,546	2,751	658	766	16,721	507	66.2%	4.6%
Romania	5,761	2,235	1,728	1,466	11,190	832	56.8%	13.1%
Slovakia	4,214	775	258	423	5,670	310	73.2%	7.5%
Hungary	5,316	986	448	552	7,301	255	46.2%	7.6%
Croatia	2,889	1,255	252	289	4,684	228	79.0%	6.2%
Serbia	237	234	6	41	518	42	102.1%	8.0%
Ukraine	92	161	167	89	509	81	91.3%	17.5%
GCIB	12,977	4,284	1,280	918	19,458	394	42.9%	4.7%
Group Markets	224	4	32	0	260	0	> 1,000.0%	0.0%
Corporate Center	632	143	6	50	831	70	139.3%	6.0%
Total	**91,317**	**22,944**	**6,335**	**8,537**	**129,134**	**4,880**	**57.2%**	**6.6%**

1) NPL ratio in the loan to customer section is based on non-performing loans of the customer loan book divided by total loans and hence might deviate from the section credit exposure.

Loans and advances to customers by business segment

2008 in EUR million	Low risk	Manage-ment attention	Sub-standard	Non-per-forming	Total loans	Risk provisions	NPL coverage	NPL Ratio[1]
Retail & SME	79,659	16,399	3,701	5,398	105,156	3,394	62.9%	5.1%
Austria	47,402	8,211	1,228	3,682	60,523	1,963	53.3%	6.1%
EB Österreich	22,341	2,520	278	1,161	26,300	618	53.2%	4.4%
Savings Banks	25,062	5,691	949	2,521	34,223	1,345	53.4%	7.4%
CEE	32,256	8,188	2,473	1,715	44,633	1,431	83.4%	3.8%
Czech Republic	13,267	1,985	370	477	16,100	322	67.4%	3.0%
Romania	6,210	2,805	1,405	499	10,920	531	106.4%	4.6%
Slovakia	4,079	672	218	272	5,241	222	81.6%	5.2%
Hungary	5,582	1,101	240	246	7,169	123	49.8%	3.4%
Croatia	2,634	1,142	168	181	4,125	168	92.6%	4.4%
Serbia	242	174	17	28	462	35	125.3%	6.1%
Ukraine	242	308	55	12	616	31	264.9%	1.9%
GCIB	15,626	3,436	586	463	20,111	243	52.5%	2.3%
Group Markets	400	57	11	24	493	1	3.5%	4.9%
Corporate Center	348	78	0	0	426	58	n.m.	0.0%
Total	**96,033**	**19,969**	**4,298**	**5,885**	**126,185**	**3,696**	**62.8%**	**4.7%**

1) NPL ratio in the loan to customer section is based on non-performing loans of the customer loan book divided by total loans and hence might deviate from the section credit exposure.

ABS and CDO portfolio

The Erste Group's general screening criterion for purchasing securitised products or their derivatives is to avoid product categories that lack historical default and loss data over a full economic cycle. In addition, all ABS and CDO investments are centrally analysed and approved by Erste Group. As a rule, all securities are held until maturity; earlier disposal is the exception.

Before investments are made, Erste Group undertakes a fundamental analysis on a single-asset basis. Most investments are in the form of pooled securities and other products that have relatively long histories with regard to defaults and recoveries, such as prime European residential mortgage backed securities (RMBS) or collateralized loan obligations (CLOs).

As of 31 December 2009, approximately 35% of the assets (by book value) were classified to the held-to-maturity portfolio and to loans & advances 2.5%, to the available-for-sale portfolio 50% and 12.5% to the fair value and trading portfolios. In the present market environment, all securities have a market price lower than cost. Erste Group has no current significant risk concerns with respect to the portfolio, other than in relation to the CMBS portfolio. Most securities in the ABS and CDO portfolios involve standard structures and frequently are benchmark securitisations.

The total book value of Erste Group's securitised asset portfolio was EUR 2.1 billion on 31 December 2009. The book value was affected by two opposite effects: repayments, currency effects and some single security disposals reduced the portfolio book value, while improvement in market prices increased the total book value. As a result, the book value decreased by approximately EUR 138m since December 2008. At 31 December 2009, market prices were on average at 71% compared to 63% of nominal value at 31 December 2008.

Liquidity in the market recovered to a certain degree in the second half of the year. Recently, the most senior triple-A rated notes have been easily tradable, and mezzanine tranches of some benchmark securitisations have also been more liquid. Erste Group expects the portfolio to contract further in 2009 and 2010 as a result of repayments.

In the first half of 2009, rating agencies changed their rating methodologies, which has resulted in a large number of downgrades in the securitised notes in general. Most of these downgrades resulted from rating methodology changes and were not necessarily related to the collateral performance. While at the end of 2008 98% (by book value) of the portfolio was rated investment-grade, this percentage decreased to 90% (by book value) by 31 December 2009.

Erste Group's securitised asset portfolio has been adversely affected by the changes in rating methodologies described above, as well as the difficult market environment and deteriorating fundamentals. Increasing default rates and deteriorating quality of loans have been recognized across all portfolios. However, because most of the asset portfolio consists of securities where Erste Group has a senior position relative to some other holders, Erste Group expects that the overwhelming majority of the notes will be repaid without loss under the current macro-economic assumptions.

A major part of the portfolio, approximately 72% (by book value), is invested in residential mortgage-backed securities (RMBS) and collateralised loan obligations (CLO).

European prime residential mortgage-backed securities (RMBS): In the United Kingdom, Erste Group has invested solely in prime RMBS. These are portfolios of residential mortgage loans, which as a rule have to have satisfactory ratings. UK residential property prices reached the bottom in June 2009 with prices down by approximately 20% from the peak. The UK average house price in November 2009 was 5.6% higher than in December 2008. A key affordability measure, which is the proportion of disposable earnings devoted to mortgage payments, has fallen from a peak of 48% in 2007 to 27% in November 2009, and is now below the long-term average of 35%. According to Moody's, mortgage arrears started to stabilize with the current 90+ days arrears at 1.91% by the end of October compared to 2.05% by the end of July and repossessions at 0.07% by the end of October compared to 0.08% by the end of July.

European and US collateralised loan obligations (CLO): These products consist primarily of secured corporate loans with an average rating of single-B. The average levels of defaulted securities and CCC-rated securities in the CLO pool have risen significantly. According to Moody's, the US speculative-grade default rate was at 13% by the end of 2009, while its European counterpart was at 10%. According to Moody's global speculative-grade default rates have peaked in November 2009 and are expected to decline sharply to 3.3% by the end of 2010. Due to the high rank of the Erste Group´s tranches in the capital structure, no significant losses in the CLO portfolio are expected.

As of 31 December 2009, the remaining 28% (by face value) of the securitised asset portfolio was invested in the following asset classes:

UK commercial mortgage-backed securities (CMBS): The portfolio comprises loans with commercial property collateral (mostly offices, but also retail, leisure and other). The majority of the portfolio is invested in the UK, where the commercial property market is extremely stressed, with prices down by 39% since the peak in June 2007. In the second half of 2009, the UK commercial property values stabilized. However, due to the decline in the commercial property market, LTV ratios have increased considerably, increasing refinancing risk at maturity. A high LTV ratio has no immediate effect on the notes, as long as there is no payment default on interest, but it is an important measure since the loans have to be refinanced at maturity. Because the Erste Group portfolio consists of medium-term securities, none of the portfolio holdings needs to be refinanced in the currently depressed market environment. A large part of this portfolio has already been downgraded, and more downgrades are expected in the near term as a consequence of weakness in the property market. Due to the problems described above, four CMBS notes with an aggregate amount of about EUR 34.5 million have been impaired.
Investments in continental Europe (European prime RMBS and European CMBS): The portfolio comprises (i) securitisations from the Netherlands and Germany, where the underlying assets are residential and commercial mortgages, loans to small and medium enterprises, and leases; (ii) Italian RMBS and lease ABS; (iii) Spanish securitisations mostly of SME loans, as well as a smaller amount of RMBS; and (iv) smaller positions in Irish, CEE and Australian assets.

In addition, Erste Group has also invested in US collateralised mortgage obligations ('CMOs') issued by Ginnie Mae, Fannie Mae and Freddie Mac. These issuers are considered US government-sponsored or US government-guaranteed institutions and have stable AAA ratings. The book value of these investments was EUR 831 million at 31 December 2009. Erste Group also holds investments in student loan securitisations, all of which are triple-A tranche securities. These securitisations are 97% guaranteed by the US Department of Education, while the remaining 3% are covered by subordination. Credit risk is therefore considered very remote. The book value for these securitisations was EUR 270 million at 31 December 2009.

Exposure to Iceland

At 31 December 2009, Erste Group had a total exposure to Icelandic banks of EUR 138 million. This was almost entirely provided for by establishing provisions of EUR 130 million. Secondary market prices considerably improved in the third quarter of 2009 for the three biggest Icelandic banks, and Erste Group partially benefited from this improvement by selling loans and bonds of almost EUR 178 million face value, achieving a slight profit. Currently, there is no plan to reduce the existing provisions, which are regarded as sufficient to cover final losses.

41.6. Market risk

Definition and overview

Market risk is the risk of loss that may arise due to adverse changes in market prices and to the parameters derived therefrom. At Erste Group, market risk is divided into interest rate risk, currency risk, equity risk, commodity risk and volatility risk. This concerns both, transactions in trading in instruments with daily price determination (trading book) as well as traditional banking transactions (bank book).

Employed methods and instruments

At Erste Group, potential losses that may arise from market movements are assessed by using the 'value-at-risk' method. The calculation is done according to the method of historic simulation with a unilateral confidence level of 99%, a holding period of one to ten days and a simulation period of two years. Value-at-risk describes which losses may be expected as a maximum at a defined probability – the confidence level – within a certain holding period of the positions under normal market conditions.

Backtesting is used to constantly monitor the validity of the statistical methods. This process is conducted with a one-day delay to monitor if the model projections regarding losses have actually materialized. At a confidence level of 99% the actual loss on a single day should exceed the value-at-risk statistically only twice to three times a year (1% of around 250 workdays).

This shows one of the limits of the value-at-risk approach: On the one hand, the confidence level is limited to 99%, and on the other hand, the model takes into account only those market scenarios observed respectively within the simulation period of two years, and calculates the value-at-risk for the current position of the bank on this basis. In order to investigate any extreme market situations beyond this, stress tests are conducted at Erste Group. These events include mainly market movements of low probability.

The stress tests are carried out according to several methods: The 'historical worst case' is derived from the value-at-risk calculation, but a confidence level of 100% is assumed, i.e., the absolutely worst value of the simulation time series is used as result. In the 'extreme value theory', a Pareto distribution is adjusted to the extreme end of the loss distribution. In this manner a continuous function is created from which extreme confidence levels such as 99.95% can be evaluated. Finally, standard scenarios are calculated in which the individual market factors are exposed to extreme movements. Such scenarios are calculated at Erste Group for interest rates, stock prices, exchange rates and volatilities. Furthermore, since 2009, combination scenarios have been calculated in which the current position of the trading book is subjected to a historical worst case calculation over an interesting historical period. These analyses are made available to the management board and the supervisory board within the scope of the monthly market risk reports.

The value-at-risk model was approved by the Financial Market Authority (FMA) as an internal market risk model to determine the capital requirements of Erste Group pursuant to the Austrian Banking Act. The best possible multiplier of three is used in this case that was assigned by the Financial Market Authority (FMA) on the basis of an appraisal by Austrian National Bank

Methods and instruments of risk mitigation

At Erste Group, market risks are controlled in the trading book by setting several layers of limits. The overall limit on the basis of value-at-risk for the trading book is decided by the board in the Risk Committee taking into account the risk-bearing capacity and projected earnings. A further breakdown is done on the basis of a proposal by the Risk Management Unit, 'Group Market & Liquidity Risk Management' in the Market Risk Committee (MARA).

All market risk activities of the trading book are assigned risk limits that are statistically consistent in their entirety with the value-at-risk overall limit. The value-at-risk limit is assigned in a top-down procedure to the individual trading units. This is done up to the level of the individual trading groups or departments. Additionally, in a bottom-up procedure, sensitivity limits are assigned to even smaller units all the way down to the individual traders. These are then aggregated upwards and applied as a second limit layer to the value-at-risk limits. The consistency between the two limit approaches are verified regularly.

Limit compliance is verified at two levels: by the appropriate local decentralised risk management unit and by Group Market & Liquidity Risk Management. The monitoring of the limits is done within the course of the trading day based on sensitivities. This can also be carried out by individual traders or chief traders on an ad hoc basis.

The value-at-risk is calculated every day at the Group level and made available to the individual trading units as well as to the superior management levels all the way up to the management board.

Within the course of the calculation, the trading book positions are valued independently of trading. This means that, on the one hand, the market data is collected by risk controlling itself, and on the other, that the valuation procedures and models are developed and validated independently of the trading units.

Apart from the trading book positions, once a month, the bank book positions are also subjected to a value-at-risk analysis. In this manner, the total value-at-risk is determined. The result of this calculation is presented in the monthly market risk report that is made available to the management board and the supervisory board.

Analysis of market risk

Value at Risk of banking book and trading book

The following tables show the VaR amounts as of 31 December 2009 and 31 December 2008 at 99% confidence level, with a holding period of one day:

2009	Total	Interest	Currency	Shares	Commodity	Volatility
Erste Group	39,498	35,798	1,812	9,104	397	1,717
Banking book	36,559	36,134	18	1,899	0	0
Trading book	8,940	4,748	1,812	7,981	397	1,717

2008	Total	Interest	Currency	Shares	Commodity	Volatility
Erste Group	42,657	29,892	2,719	5,350	227	2,164
Banking book	37,168	37,023	68	867	3	0
Trading book	7,789	4,309	2,685	4,869	225	2,164

Interest rate risk of banking book

Interest rate risk is the risk of adverse change in the fair value of financial instruments caused by movement in market interest rates. This type of risk arises when mismatches exist between assets and liabilities (including off-balance-sheet items) in respect of their maturities or of the timing of interest rate adjustments.

In order to identify interest rate risk, all financial instruments, including transactions not recognised in the balance sheet, are grouped into maturity bands based on their remaining term to maturity or term to an interest rate adjustment.

The following tables list the open fixed-income positions held by Erste Group in the five currencies that carry significant interest rate risk: EUR, CZK, HUF and RON, as of 31 December 2009 and 31 December 2008, and SKK, as of 31 December 2008, respectively.

Only the open fixed-income positions that are not allocated to the trading book are presented. Positive values indicate fixed-income risks on the asset side, i.e., a surplus of asset items; negative values represent a surplus on the liability side.

Open fixed-income positions not assigned to the trading book

2009 in EUR million	1-3 years	3-5 years	5-7 years	7-10 years	over 10 years
Fixed-interest gap in EUR positions at 31 December 2009	(1,297.3)	(146.2)	601.6	1,781.8	1,019.8
Fixed-interest gap in CZK positions at 31 December 2009	(2,317.5)	(518.4)	372.7	405.3	1,194.7
Fixed-interest gap in SKK positions at 31 December 2009	-	-	-	-	-
Fixed-interest gap in HUF positions at 31 December 2009	94.4	338.0	76.1	51.3	0.0
Fixed-interest gap in RON positions at 31 December 2009	203.6	315.5	72.2	155.8	4.7

2008 in EUR million	1-3 years	3-5 years	5-7 years	7-10 years	over 10 years
Fixed-interest gap in EUR positions at 31 December 2008	3,170.5	1,923.0	886.8	598.4	55.4
Fixed-interest gap in CZK positions at 31 December 2008	(1,964.1)	(13.5)	686.3	439.3	620.6
Fixed-interest gap in SKK positions at 31 December 2008	(392.1)	853.8	97.4	86.6	179.4
Fixed-interest gap in HUF positions at 31 December 2008	273.4	444.7	236.8	82.8	0.0
Fixed-interest gap in RON positions at 31 December 2008	(55.4)	212.4	42.5	170.7	5.3

Exchange rate risk

The bank is exposed to the several types of exchange rate-related risks.

Risk from open currency position

Risk from open currency positions is the exchange rate-related risk that derives from the mismatch between assets and liabilities, or from currency-related financial derivatives. These risks might originate from customer-related operations or proprietary trading and are monitored and managed on daily basis. Foreign currency exposure is subject to regulatory and internal limits. The internal limits are set by the Market Risk Committee.

Other exchange rate- related risks

Erste Group separately measures and manages other types of risks relating to the group's balance sheet and earnings structure. The translation risk related to the valuation of the balance sheet positions, earnings, dividends, participations/net investments in local currency or foreign exchange has an impact on consolidated earnings and consolidated capital. Erste Group is also reducing the negative impact relating to volatility of foreign exchange on asset's performance (for example as a result of foreign exchange lending in the CEE countries).

Due to the multi-currency earnings structure, Erste Group regularly hedges the dividends and net profits. ALM uses as the usual source of information the current financial results and the financial budget prepared for the upcoming period to get as much information as possible on the future foreign cash flows. The proposal, which includes mainly the volume, the hedging level, the hedge ratio and the timeline of the hedging, is submitted by the ALM to the Group ALCO. The impact of translation on consolidated capital is monitored and reported to the Group ALCO. Group ALCO decisions are then implemented by the ALM and the implementation status is reported on monthly basis to Group ALCO.

The following tables shows the exchange rate open positions of Erste Group as of the dates indicated, respectively.

Exchange rate open positions

in EUR thousand	2009	2008
US dollar (USD)	11,656	29,467
Japanese yen (JPY)	(40,993)	(20,898)
Swiss franc (CHF)	(30,239)	(7,933)
Czech koruna (CZK)	1,793	10,685
Polish Zloty (PLN)	(5,267)	19,753
Hungarian forint (HUF)	(7,375)	(15,302)
Romanian Lei (RON)	(54,632)	(382)

Hedging
Banking book market risk management consists of optimizing Erste Group's risk position by finding the proper trade-off between the economic value of the balance sheet and forecasted earnings. Decisions are based on the balance sheet development, the economic environment, competitive landscape, fair value of risk, effect on net interest income and appropriate liquidity position. The steering body responsible for interest rate risk management is the Group ALCO. The ALM submits proposals for actions to steer the interest rate risk to the Group ALCO and implements Group ALCO's decisions.

In order to achieve the goals of risk management, hedging activities focus on the two main control variables: net interest income and market value of equity risk. In a broader sense, hedging means an economic activity that mitigates risk, but does not necessarily qualify for IFRS hedge accounting. In a more narrow sense, hedging is the hedge accounting according to IFRS requirements. For economic fair value, hedging fair value option is used where it is applicable. For IFRS hedge accounting cash flow hedges, fair value hedges and hedges of a net investment are recognised. Most of the hedging within Erste Group concerns hedging of interest rate risk; the remaining is used to hedge foreign exchange rate risk. IFRS hedge accounting is one of the tools of steering the risk.

41.7. Liquidity risk

Definition and overview
The liquidity risk is defined in Erste Group in line with the principles set by the Basel Committee on Banking Supervision. Accordingly, a distinction is made between market liquidity risk, which is the risk that the Group entities cannot easily offset or eliminate a position at the market price because of inadequate market depth or market disruption, and funding liquidity risk, which is the risk that the banks in the Group will not be able to meet efficiently both expected and unexpected current and future cash flow and collateral needs without affecting either daily operations or the financial condition of the Group members.

Funding liquidity risk is further divided into insolvency risk and structural liquidity risk. The former is the short-term risk that current or future payment obligations cannot be met in full, on time in an economically justified way, while structural liquidity risk is the long-term risk of losses due to a change in the Group's own refinancing cost or spread.

During 2008 and 2009, liquidity risk management was one of the most important priorities for Erste Group, not only as tactical short-term liquidity risk management, but the liquidity management in its entirety, for example, management of long-term structural liquidity risk, planning of funding needs across Erste Group, crisis scenario-based analysis, contingency plans, collateral mobilisation, and communication.

Organisation and reporting
Liquidity risk is discussed at the Erste Group Bank Board level at Group ALCO meetings. In addition, there are daily and weekly reports prepared for the Board. Group ALCO is regularly informed on whether liquidity limits have been reached and is updated on the internal and external market liquidity situation. The Group OLC is responsible for the management of liquidity, and has been meeting more frequently in order to improve the coordination of the operational tasks related to liquidity management and to regularly report to Group ALCO members during the financial crisis. The national banks have also been observing the liquidity situation and liquidity risk more carefully during 2008 and 2009. Furthermore, Erste Group has complied with the new reporting requirements and liquidity limits imposed by the national banks, which have to be applied within the EU member states.

Short-term liquidity risk
The maturity profile of short-term funding in foreign currencies, in particular Swiss francs and US dollars, has been monitored on a detailed basis to ensure that they have been within the short-term liquidity limits. The short-term liquidity position is monitored on a daily basis. The share of short-term funding is relatively low compared to the balance sheet. Erste Group is particularly focusing on the net cash outflow projection and its coverage by collateral. In 2009, the Group OLC put a special focus on collateral mobilisation, which helped increase the available amount of central bank eligible collateral in Erste Group. The ratio between secured and unsecured funding clearly confirms the current market trend to move towards collateralised funding. The current volume of free collateral exceeds Erste Group's total short-term unsecured funding exposure.

Long-term liquidity risk
Erste Group steers long-term (structural) liquidity risk through a scenario and time dependent analysis tool, both at the group and the individual subsidiary level. Dynamic aspects of the renewal of existing balance sheet items are incorporated through certain set of assumptions describing the given crisis environment. Similarly, the saleability, haircut (in case of securities) and early withdrawal (for deposit products) assumptions are adjusted based on the modelled scenario. The purpose of the analysis is to determine the ability of Erste Group to withstand distressed situations before they actually occur. Additionally, the traditional liquidity gaps (depicting the mismatches of the contractual maturities) of the subsidiaries and the whole group are reported and monitored regularly. Erste Group's fund transfer pricing (FTP) system also proved to be an efficient steering tool for structural liquidity risk management. The primary, most stable funding source for Erste Group is the customer deposit base, which also proved its stability during the recent liquidity crisis. See 'Selected Statistical

Information—Customer Deposits'. The total client deposit volume has in fact followed the growth in the client loans, as the current loan-to-deposit ratio of approximately 115.3% means virtually no increase from the December 2008 levels.

Group-wide liquidity risk management

General standards of liquidity management (standards, limits and analysis) have been defined by Erste Group Bank. Members of Erste Group implemented these principles. Results of the analysis are reported regularly and consolidated at group level. The important channel for steering the liquidity risk within Erste Group Bank and towards its subsidiaries is the above mentioned FTP system and prices of intra-group funding. As the process of planning of funding needs provides important data for liquidity management, a detailed overview of funding needs is prepared for the planning horizon across Erste Group on quarterly basis.

Contingency plan

The Comprehensive Contingency Plan ensures the necessary coordination of all involved parties in the liquidity management process in case of crisis. The contingency plans of the subsidiaries are coordinated as part of the plan for the Erste Group.

Liquidity gap

The long-term liquidity position is managed using liquidity gaps, on the basis of expected cash flows. This liquidity position is calculated for each currency with material volume and based on the assumption of ordinary business activity.

The following table shows liquidity gaps as of 31 December 2009 and 31 December 2008:

in EUR million	< 1 month		1-12 months		1-5 years		> 5 years	
	2009	2008	2009	2008	2009	2008	2009	2008
Liquidity GAP	**20,477**	**(2,523)**	**(25,325)**	**(26,595)**	**(17,955)**	**(2,039)**	**22,696**	**34,527**

The comparative figures for the fiscal year 2008 have been adjusted. The methodology has been changed in two fundamental ways: (1) non-interest bearing assets and liabilities are not shown in the first, but in the last bucket, and (2) only principal cash flows are taken into account (interest is excluded).

Analysis of liquidity buffer

Erste Group holds securities eligible at central banks to manage liquidity risk. Maturities of contractual, not discounted cash flows of these financial assets are shown in the table below:

2009 in EUR million	< 1 month	1-12 months	1-5 years	> 5 years
Eligible securities	**1,223**	**4,907**	**12,837**	**8,669**

Analysis of financial liabilities

Maturities of contractual, not discounted cash flows of financial liabilities were as follows:

2009 in EUR million	Carrying amount	Contractual cash flows	< 1 month	1-12 months	1-5 years	> 5 years
Non-derivative liabilities	**174,097**	**185,168**	**73,196**	**44,931**	**45,897**	**21,144**
Deposits by banks	26,295	27,182	12,636	9,363	3,572	1,611
Customer deposits	112,042	115,336	57,185[1)]	28,631	24,649	4,871
Debt securities in issue	29,612	33,888	3,343	6,398	15,249	8,898
Subordinated liabilities	6,148	8,762	32	539	2,427	5,764
Derivative liabilities	**3,749**	**500**	**25**	**231**	**507**	**(263)**
Hedging derivatives	2,436	464	25	223	494	(278)
Other derivatives in banking book	1,313	36	0	8	13	15
Total	**177,846**	**185,668**	**73,221**	**42,162**	**46,404**	**20,881**

1) Customer deposits include deposits on demand

41.8. Operational risk

Definition and overview

In line with Section 2 No 57d Banking Act, Erste Group defines operational risk as 'the risk of loss resulting from inadequacy or failure of internal processes, people or systems, or from external events including legal risks'. Both quantitative and qualitative methods are used to identify operational risks. Consistent with international practice, the responsibility for managing operational risk rests with the line management.

Employed methods and instruments

The quantitative measurement methods are based on internal loss experience data, which is collected across Erste Group using a standard methodology and entered in a central data pool. Additionally, in order to be able to model losses that have not occurred in the past but are nonetheless possible, scenarios and external data are also used. Erste Group sources external data from the Operational Riskdata eXchange Assotiation (ORX), a non-profit industry association and leading risk-loss data consortium.

In addition to quantitative methods, qualitative methods are also used to determine operational risk, such as risk assessment surveys (Risk Control Self Assessments). The results of and suggestions for risk control in these surveys taken by experts are reported to line management and thus help to reduce operational risks. Erste Group also reviews certain key indicators periodically to ensure early detection of changes in risk potential that may lead to losses.

Erste Group uses a group-wide insurance programme, which, since its establishment in 2004, has reduced the cost of meeting Erste Group's traditional property insurance needs and made it possible to buy additional insurance for previously uninsured banking-specific risks. Without any increase in overall costs for individual entities, Erste Group achieves coverage of the losses via a captive reinsurance firm, which permits diversification of risk in Erste Group.

The quantitative and qualitative methods used, together with the insurance strategy and the modelling approaches described above form the operational risk framework of Erste Group. Information on operational risk is periodically communicated to the Management Board via various reports, including the quarterly top management report, which includes recent loss history, loss development, qualitative information from risk assessments and key risk indicators as well as the operational VaR for Erste Group.

In the first half of 2009, Erste Group received regulatory approval to use the AMA (Advanced measurement approach) at the group level which as of 31 December 2009, includes five entities (Erste Group Bank AG, Erste Bank der oesterreichischen Sparkassen AG, Česká spořitelna a.s., Slovenská sporiteľňa a.s. and Erste Bank Hungary Nyrt). Other major subsidiaries which are currently using the Basic Indicator Approach intend to apply for the AMA in the future. AMA is a sophisticated approach to measure operational risk. Pursuant to AMA, the required capital is calculated using an internal VaR model, taking into account internal data, external data, scenario analysis, business environment and internal risk control factors. Moving from Basic Indicator Approach, to AMA had almost no effect on the capital requirements at group level, although a reduction is expected when AMA coverage is extended to other entities within Erste Group.

42) Derivative financial instruments

Fair value hedges are employed to reduce market risk. They are used to turn fixed-income or structured transactions into variable-income transactions. Erste Group's policy is to convert all substantial fixed single transactions bearing interest rate risk into variable transactions in order to separate the interest rate risk from such transactions. This policy is applied primarily to fixed or structured issued bonds, but also to the material fixed purchased bonds and generally, any material fixed transactions in the balance sheet. Group ALM is steering interest rate risk. Steering of interest rate risk is undertaken through issuance of bonds, loans or derivatives, whereas for derivatives IFRS hedge accounting is usually applied. Interest rate swaps are the main instruments used for fair value hedges. In connection with issuance, fair value is also hedged by means of cross-currency swaps, swaptions, caps, floors and other types of instruments.

Derivatives financial instruments held or issued for hedging purposes

in EUR million	2009	2008
Profit/loss fair value – underlying	(297.2)	(577.8)
Profit/loss in fair value – hedging instrument	279.9	573.7

Cash flow hedges are used to eliminate uncertainty in future cash flows in order to stabilise net interest income. Floors or caps are used to lock in levels of interest income in a changing interest rate environment. Interest rate swaps, caps and floors are used to hedge interest rate risk. Currency risk is hedged with spot transactions as well as currency swaps, FX forwards or balance sheet items denominated in a hedged currency.

In the reporting period, EUR 5 million (2008: EUR 14 million) was removed from the cash flow hedge reserve and recognised as income in the consolidated income statement; EUR 13 million (2008: EUR 150 million) was recognised directly in equity. The majority of the hedged cash flows is likely to occur within the next five years and will then be recognised in the consolidated income statement. Inefficiencies from cash flow hedges amounting to EUR (10.6) million (2008: EUR (2.3) million) are reported in the net trading result.

		2009		2008
in EUR million	Positive fair value	Negative fair value	Positive fair value	Negative fair value
Hedging instrument – fair value hedge	1,041	728	200	167
Hedging instrument – cash flow hedge	114	32	96	20

Fair values are disclosed as clean prices of the hedging instruments, i.e. without interest accruals. This is how they are disclosed within banking book derivatives in other assets and other liabilities.

Total volume of unsettled derivatives

	2009			2008		
	Notional amount	Fair value		Notional amount	Fair value	
in EUR million		Positive	Negative		Positive	Negative
Derivatives held for trading						
Interest rate swaps	192,766	5,118	5,206	195,089	3,656	4,195
Currency swaps	34,007	1,369	1,244	36,666	2,063	1,748
Credit default swaps	3,193	130	126	2,403	129	76
Interest forward rate agreement	82,450	52	47	49,548	84	89
Currency forward rate agreement	3,393	139	93	10,835	590	386
Interest rate futures	69	0	0	1,849	0	0
Currency futures	2	0	1	28	0	0
Interest rate options	116,631	1,000	1,001	130,459	1,115	1,034
Currency options	16,402	185	160	36,816	924	844
Other agreements	4,537	88	55	3,983	93	38
Total derivatives held for trading[1)]	**453,450**	**8,081**	**7,933**	**467,676**	**8,654**	**8,410**
Derivatives held in banking book						
Fair value hedges						
Interest rate contracts	28,850	1,491	652	25,561	429	350
Currency contracts	1,092	30	93	2,165	81	0
Other agreements	277	2	4	205	0	20
Total fair value hedges	**30,219**	**1,523**	**749**	**27,931**	**510**	**370**
Cash flow hedges						
Interest rate contracts	5,862	216	47	3,228	265	36
Currency contracts	643	3	24	259	0	5
Other agreements	0	0	0	0	0	0
Total cash flow hedges	**6,505**	**219**	**71**	**3,487**	**265**	**41**
Other derivatives						
Interest rate contracts	15,949	296	310	15,235	29	40
Currency contracts	4,861	85	177	8,663	33	146
Other agreements	243	5	6	267	0	1
Total other derivatives	**21,053**	**386**	**493**	**24,165**	**62**	**187**
Total derivatives in banking book	**57,777**	**2,128**	**1,313**	**55,583**	**837**	**598**
Total derivatives	**511,227**	**10,209**	**9,246**	**523,259**	**9,491**	**9,008**

1) Due to gross disclosure the published figures are higher than those which are accounted among trading assets/trading liabilities

43) Fair value of financial instruments

Financial instruments for which fair value is determined on the basis of quoted market prices are mainly listed securities and derivatives as well as liquid OTC bonds.

Erste Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Financial instruments which are valued based on quoted (unadjusted) prices in active market for identical assets or liabilities. This includes financial instruments which are traded with a sufficient volume on an exchange, debt instrument with are quoted by several market participants with a sufficient depth or liquid derivatives which are traded on an exchange.

Level 2: Financial instruments which are valued based on quoted prices (in non-active markets or in active markets for similar assets or liabilities) and inputs other than quoted prices that are observable. This includes yield curves derived from liquid underlyings or prices from similar instruments.

Level 3 inputs are inputs which are not observable. This includes extrapolation of yield curves or volatilities, usage of historical volatilities, significant adjustment of quoted CDS spreads or equity prices.

The table below details the valuation methods used to determine the fair value of financial instruments (excl. derivatives in banking book) measured at fair value:

in EUR million	Quoted market prices in active markets Level 1	Marked to model based on observable marked data Level 2	Marked to model based on non-observable inputs Level 3	Total
Financial assets – available for sale	8,930	6,769	175	15,874
Financial assets – at fair value through profit or loss	1,252	1,620	95	2,967
Trading assets – securities	2,307	3,705	0	6,012
Positive market value – derivatives	2	4,709	2	4,713
Total assets	**12,491**	**16,803**	**272**	**29,566**
Negative market value – derivatives	0	3,746	3	3,749
Other trading liabilities	594	127	0	721
Total liabilities and equity	**594**	**3,873**	**3**	**4,470**

The volume of products whose fair values are determined using valuation models based on non-observable market data is driven in large part by illiquid bonds and securities not quoted in an active market.

Movements in Level 3 of financial instruments measured at fair value

The follwing table shows the development of fair value of securities for which valuation models are based on non observable inputs:

in EUR million	2008	Gain/loss in profit or loss	Gain/loss in other comprehensive income	Pur–chases	Sales/ Settle-ments	Transfer into Level 3	Transfers out of Level 3	Currency trans–lation	2009
Financial assets – available for sale	1,510	(19)	1	15	(92)	110	(1,348)	(2)	175
Financial assets – at fair value through profit or loss	267	(6)	0	1	(47)	80	(200)	0	95
Trading assets	62	(2)	0	2	(41)	0	(21)	0	0
Trading liabilities	0	0	0	0	0	0	0	0	0
Total	**1,839**	**(27)**	**1**	**18**	**(180)**	**190**	**(1,569)**	**(2)**	**270**

Gains or losses on level 3 securities held at the end of the reporting period, which are included in comprehensive income are as follows:

in EUR million	Gain/loss in profit or loss	Gain/loss in other comprehensive income
Financial assets – available for sale	(1.0)	0.3
Financial assets – at fair value through profit or loss	(14.0)	0.0
Trading assets	(3.8)	0.0
Trading liabilities	0.0	0.0
Total	**(18.8)**	**0.3**

Movements between Level 1 and Level 2

In the course of 2009, corporate bond markets recovered which resulted in higher liquidity for most issues. This led to the reclassification of corporate bonds (mainly financials) from Level 2 to Level 1 with a volume of EUR 2.75 bn.

Movements in Level 3 financial instruments measured at fair value

As the market for securitizations stabilized and improved during 2009, the majority of the securitizations were reclassified from level 3 to level 2 after having conducted and analysis of the price sources available. On the other hand, unlisted stocks, which were not included last year, have been included this year with most of them being classified as level 3.

Sensitivity analysis of unobservable parameters

If the value of financial instruments is dependent on unobservable input parameters, the precise level for these parameters could be drawn from a range of reasonably possible alternatives. In preparing the financial statements, levels for the parameters are chosen from these ranges using judgment consistent with prevailing market evidence. If all these unobservable parameters are moved simultaneously to the extremes of these ranges as of December 31, 2009, it could have increased fair value by as much as EUR 13.7 million or decreased fair value by as much as EUR 22.6 million. In estimating these impacts, mainly PDs (probability of default) and market values for equities were stressed.

The following table shows fair values of financial instruments not measured at fair value:

in EUR million	2009 Fair value	2009 Carrying amount	2008 Fair value	2008 Carrying amount
ASSETS				
Cash and balances with central banks	5,996	5,996	7,556	7,556
Loans and advances to credit institutions	13,118	13,067	14,345	14,258
Loans and advances to customers	123,767	124,253	123,644	122,488
Financial assets – held to maturity	14,810	14,899	14,064	14,145
LIABILITIES				
Deposits by banks	26,352	26,295	34,627	34,672
Customer deposits	111,821	112,042	109,154	109,305
Debt securities in issue	29,643	29,612	30,458	30,484
Subordinated liabilities	5,778	6,148	6,040	6,047

The fair value of loans and advances to customers and credit institutions has been calculated by discounting future cash flows under consideration of interest and risk effects. Loans and advances were grouped into homogeneous portfolios based on maturity and internal rating. The reduction in fair values compared to the carrying amount is driven by an adverse change in the risks of the assets.

For liabilities without contractual maturities, the carrying amount is recorded at fair value. The fair value of the other liabilities is estimated without assumed credit risk, but with changes in interest rates.

44) Financial instruments per category according to IAS 39

	At 31 December 2009							
in EUR million	Loans and receivables	Held to maturity	Trading	Designated at fair value	Available for sale	Financial assets and financial liabilities at amortised cost	Derivatives designated as hedging instruments	Total
ASSETS								
Cash and balances with central banks						5,996		5,996
Loans and advances to credit institutions	13,140							13,140
Loans and advances to customers	129,134							129,134
Risk provisions for loans and advances	(4,954)							(4,954)
Trading assets			8,598					8,598
Financial assets – at fair value through profit or loss				2,997				2,997
Financial assets – available for sale					16,390			16,390
Financial assets – held to maturity		14,899						14,899
Derivatives in banking book[1)]			386				1,742	2,128
Accruals[1)]						1,775		1,775
Total financial assets	**137,320**	**14,899**	**8,984**	**2,997**	**16,390**	**7,771**	**1,742**	**190,103**
LIABILITIES								
Deposits by banks						26,295		26,295
Customer deposits				155		111,887		112,042
Debt securities in issue				74		29,538		29,612
Trading liabilities			3,157					3,157
Subordinated liabilities						6,148		6,148
Derivatives in banking book[2)]			493				820	1,313
Accruals[2)]						2,310		2,310
Total financial liabilities	**0**	**0**	**3,650**	**229**	**0**	**176,178**	**820**	**180,877**

1) Derivatives and accruals are reported in other assets.
2) Derivatives and accruals are reported in other liabilities.

in EUR million	At 31 December 2008 Loans and receivables	Held to maturity	Trading	Designated at fair value	Available for sale	Financial assets and financial liabilities at amortised cost	Derivatives designated as hedging instruments	Total
ASSETS								
Cash and balances with central banks						7,556		7,556
Loans and advances to credit institutions	14,243			101				14,344
Loans and advances to customers	126,185							126,185
Risk provisions for loans and advances	(3,783)							(3,783)
Trading assets			7,534					7,534
Financial assets – at fair value through profit or loss				4,058				4,058
Financial assets – available for sale					16,033			16,033
Financial assets – held to maturity		14,145						14,145
Derivatives in banking book[1)]			164				296	460
Accruals[1)]						1,893		1,893
Total financial assets	**136,645**	**14,145**	**7,699**	**4,159**	**16,033**	**9,449**	**296**	**188,426**
LIABILITIES								
Deposits by banks						34,672		34,672
Customer deposits				128		109,176		109,305
Debt securities in issue				65		30,419		30,484
Trading liabilities			2,520					2,520
Subordinated liabilities						6,047		6,047
Derivatives in banking book[2)]			195				188	382
Accruals[2)]						1,942		1,942
Total financial liabilities	**0**	**0**	**2,714**	**193**	**0**	**182,255**	**188**	**185,350**

1) Derivatives and accruals are reported in other assets.
2) Derivatives and accruals are reported in other liabilities.

45) Audit fees and tax consultancy fees

The following table contains fundamental audit fees and tax fees charged by the auditors (of Erste Group Bank AG and subsidiaries; the auditors include primarily Sparkassen-Prüfungsverband, Ernst & Young and Deloitte) in the fiscal years 2009 and 2008:

in EUR million	2009	2008
Audit fees	17.5[1)]	11.1
Tax consultancy fees	2.5	1.5
Total	**20.0**	**12.6**

1) Fees for capital increase and participation capital amounted to EUR 4.2 million

46) Contingent liabilities

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend in amount of EUR 37,826 million (2008: EUR 37,361 million). Even though these obligations may not be recognised on the balance sheet, they do contain credit risk and are therefore part of the overall risk of the Bank (see Note 41 credit exposure).

Legal proceedings

Erste Group Bank and some of its subsidiaries are involved in legal disputes, most of which have arisen in the course of its ordinary banking business. These proceedings are not expected to have a significant negative impact on the financial position or profitability of Erste Group and/or Erste Group Bank. Erste Group is also subject to the following ongoing proceedings:

Haftungsverbund

In 2002, Erste Group Bank formed the Haftungsverbund with the majority of the Austrian savings banks. The purpose of the Haftungsverbund is to establish a joint early-warning system as well as a cross-guarantee for certain liabilities of member savings banks and to strengthen the group's cooperation in the market.
In competition proceedings before the Austrian cartel court, both a competitor of Erste Group Bank and the Austrian federal competition authority requested the court to set aside the Haftungsverbund agreements because of an alleged infringement of Article 81 of the EC Treaty (now Article 101 The Treaty on the Functioning of the European Union/TFEU).
In March 2007, the Austrian Supreme Court issued a decision confirming that the agreements that constitute the Haftungsverbund are for the most part in compliance with Article 81 of the EC Treaty.
However, the Supreme Court held certain provisions to be anti-competitive on their merits. In its findings, the Supreme Court did not cite any explicit measures that needed to be implemented by Erste Group Bank and the other parties. In April 2008, Erste Group Bank and the Cartel Court reached an understanding on the necessary adjustments to be made. This understanding (commitments within the meaning of Section 27 Cartel Act relating primarily to the sharing of data that might have competitive value) was challenged by Erste Group Bank's competitor before the Supreme Court. In October 2008, the Supreme Court set aside the decision of the Cartel Court due to a procedural error and remanded the case to the Cartel Court for reconsideration.
Neither the commitments (assuming they are upheld) nor the preceding decision of the Supreme Court affect the consolidation of the Qualifying Capital of the savings banks nor their inclusion as subsidiaries in the consolidated financial statements in accordance with IFRS of Erste Group Bank.
Since 2007, Erste Group Bank has entered into agreements with all Austrian savings banks (with the exception of Allgemeine Sparkasse Oberösterreich Bankaktiengesellschaft) that grant Erste Group Bank, on a contractual basis, a decisive influence on the savings banks and that lead to the establishment of an economic unit (merger) within the meaning of the EC Merger Regulation and the Cartel Act. These agreements were formally approved by the competition authorities.
In December 2009, Allgemeine Sparkasse Oberösterreich Bankaktiengesellschaft and Erste Group Bank decided to strengthen their existing relationship and concluded, together with Erste Bank der oesterreichischen Sparkassen AG, an agreement known as the 'Trilaterale Haftungsvereinbarung', which lead to the establishment of an economic unit (merger). At the same time, the parties agreed that the original Haftungsverbund agreement (2002) will remain valid until the 'Trilaterale Haftungsvereinbarung' becomes effective with the approval of the competition authorities.

Auditors' Case – Erste Bank Hungary

Several years prior to Postabank's acquisition by Erste Group Bank in 2003 – and its subsequent merger with Erste Bank Hungary – a court dispute was initiated by the Hungarian State, as the former majority shareholder of Postabank, against Deloitte Hungary and Arthur Andersen Kft, two former auditors of Postabank, alleging that the Hungarian State suffered substantial losses as a result of their negligence as auditors of Postabank's financial statements for certain periods between 1995 and 1998. This dispute has gone through various court instances, and in the meantime the originally claimed amount has subsequently been reduced to approximately HUF 50 billion. The outcome of these proceedings will have implications for Erste Bank Hungary, as Deloitte Hungary and Arthur Andersen Kft have each filed an arbitration action against Erste Bank Hungary for possible recourse claims, should they finally be held liable in the main proceedings, arguing that any errors in the financial statements of Postabank were the result of erroneous data provided by Postabank to them. These arbitration proceedings have been stayed to await the outcome of the main proceedings.

Stockholm Arbitration proceedings

In the fourth quarter of 2009, a former borrower initiated arbitration proceedings in Stockholm against a group of lenders, including Erste Group Bank. The plaintiff alleges that arrangements entered into a few months earlier between the borrower and the lenders, following the borrower's default, which resulted in the forgiving of the loan – loan amount of Erste Group Bank: SEK 400 million – and the transfer of ownership to the lenders of shares in a listed Swedish company should be declared null and void and that the total current value of the shares and compensation for further alleged losses following from such transfer are due to it. With regard to Erste Group Bank, the claimant demands payment in the region of SEK 1 bn. Erste Group Bank rejects the claim in its entirety as unfounded.

47) Analysis of remaining maturities

in EUR million	2009		2008	
	< 1 year	> 1 year	< 1 year	> 1 year
Cash and balances with central banks	5,996	0	7,556	0
Loans and advances to credit institutions	10,360	2,780	11,328	3,016
Loans and advances to customers	34,168	94,966	36,737	89,448
Risk provisions for loans and advances	(1,511)	(3,443)	(1,198)	(2,585)
Trading assets	4,185	4,413	4,290	3,244
Financial assets – at fair value through profit or loss	524	2,473	816	3,242
Financial assets – available for sale	3,096	13,294	1,974	14,059
Financial assets – held to maturity	4,160	10,739	2,301	11,844
Other assets	2,212	13,298	2,508	12,860
Total	**63,190**	**138,520**	**66,312**	**135,128**
Deposits by banks	19,687	6,608	28,725	5,947
Customer deposits	91,493	20,549	91,801	17,504
Debt securities in issue	7,242	22,370	9,868	20,615
Trading liabilities	1,272	1,885	1,500	1,019
Subordinated liabilities	754	5,394	378	5,669
Other liabilities	1,867	6,467	2,588	4,732
Total	**122,315**	**63,273**	**134,860**	**55,486**

48) Own funds and capital requirement

Erste Group as a group of credit institutions is subject to the Banking Act and has to follow the capital requirements set out therein. Own funds and capital requirements are as follows:

in EUR million	Dec 2009	Dec 2008
Subscribed capital	2,520	634
Share capital	756	634
Participation capital	1,764	0
Reserves	8,240	6,482
Deduction of Erste Group Bank shares held within the group	(622)	(761)
Consolidation difference	(2,467)	(2,540)
Non-controlling interests (excluding hybrid tier(1)capital pursuant to section 24 (2) 5 and 6 Banking Act)	3,330	3,083
Hybrid tier(1) capital pursuant to section 24 (2) 5 and 6 Banking Act	1,174	1,256
Intangible assets	(498)	(513)
Tier(1) capital before regulatory deductions pursuant to section 23 (13) 3 and 4 (excl. 4a) Banking Act	**11,677**	**7,641**
Eligible subordinated liabilities	4,159	4,195
Revaluation reserve	167	140
Excess risk provisions	0	0
Qualifying supplementary capital (Tier 2)	**4,326**	**4,335**
Short-term subordinated capital (Tier 3)	**406**	**402**
Total qualifying capital	**16,409**	**12,378**
Deductions pursuant to section 23 (13) 3 and 4 (excl. 4a) Banking Act – 50% from tier-1 capital and 50% from tier-2 capital	(454)	(386)
Deductions pursuant to section 23 (13) 4a Banking Act – 100% from tier-2 capital	(183)	(234)
Total eligible qualifying capital	**15,772**	**11,758**
Capital requirement	9,911	9,598
Surplus capital	5,861	2,160
Cover ratio (in %)	159.1	122.5
Tier(1) capital (after regulatory deductions)	11,450	7,448
Core tier(1) capital (after regulatory deductions)[1)]	10,276	6,192
Tier(1) ratio – credit risk (in %)[2)]	10.8	7.2
Core tier(1) ratio – total risk (in %)[3)]	8.3	5.2
Tier(1) ratio – total risk (in %)[4)]	9.2	6.2
Solvency ratio (in %)[5)]	12.7	9.8

1) Core tier-1 capital (after regulatory deductions) is tier-1 capital (excluding hybrid capital pursuant to section 24 (2) 5 and 6 Banking Act) after regulatory deductions.
2) Tier-1 ratio – credit risk is the ratio of tier-1 capital (including hybrid capital pursuant to section 24 (2) 5 and 6 Banking Act) after regulatory deductions, to the risk weighted assets pursuant to section 22 (2) Banking Act.
3) Core tier-1 ratio – total risk is the ratio of core tier-1 capital (excluding hybrid capital pursuant to section 24 (2) 5 and 6 Banking Act) after regulatory deductions, to the calculation base for the capital requirement pursuant to section 22 (1) Banking Act.
4) Tier-1 ratio – total risk is the ratio of tier-1 capital (including hybrid capital pursuant to section 24 (2) 5 and 6 Banking Act) after regulatory deductions, to the calculation base for the capital requirement pursuant to section 22 (1) Banking Act.
5) Solvency ratio is the ratio of the sum of tier-1, tier-2 and tier-3 capital, after regulatory deductions to the calculation base for the capital requirement pursuant to section 22 (1) Banking Act.

The minimum capital requirement as determined under the Austrian Banking Act was fulfilled at all times during the year under review and the prior year.

The risk-weighted basis pursuant to section 22 (1) of the Banking Act and the resulting capital requirement are as follows:

in EUR million	Calculation base/total risk[1)]	Capital requirement[2)]	Calculation base/total risk[1)]	Capital requirement[2)]
Risk pursuant to section 22 (1) 1 Banking Act[3)]	106,383	8,510	103,663	8,293
a) standardised approach	29,940	2,395	37,838	3,027
b) Internal ratings based approach	76,443	6,115	65,825	5,266
Risk pursuant to section 22 (1) 2 Banking Act[4)]	5,048	404	4,958	397
Risk pursuant to section 22 (1) 3 Banking Act[5)]	22	2	61	5
Risk pursuant to section 22 (1) 4 Banking Act[6)]	12,438	995	11,293	903
Total	**123,891**	**9,911**	**119,975**	**9,598**

1) Internal calculation base used for calculation of the tier-1 ratio, core tier-1 ratio and the solvency ratio (capital requirement multiplied by 12.5)
2) Capital requirement pursuant to the Banking Act.
3) Risk weighted assets – credit risk.
4) Market risk (trading book).
5) Commodities risk and foreign exchange-risk, including the risk arising from gold positions, each for positions outside the trading book.
6) Operational risk.

49) Events after the balance sheet date

There were no significant events after the balance sheet date.

50) Details of the companies wholly or partly-owned by Erste Group at 31 December 2009

The table below presents material, fully-consolidated subsidiaries and accociates accounted for at equity.

Company name, registered office	Interest of Erste Group
Fully consolidated subsidiaries	
Credit institutions	
Allgemeine Sparkasse Oberösterreich Bankaktiengesellschaft, Linz (Group)	26.9%
Banca Comercială Română S.A., Bukarest (Group)	69.3%
Bausparkasse der österreichischen Sparkassen Aktiengesellschaft, Vienna	95.0%
Česká spořitelna a.s., Prague (Group)	98.0%
Dornbirner Sparkasse Bank AG, Dornbirn	0.0%
Erste & Steiermärkische banka d.d., Rijeka (Group)	65.3%
Erste Bank (Malta) Limited, Sliema	100.0%
ERSTE BANK AD NOVI SAD, Novi Sad	80.5%
Erste Bank der oesterreichischen Sparkassen AG, Vienna	100.0%
Erste Bank Hungary Nyrt., Budapest (Group)	99.9%
Kärntner Sparkasse Aktiengesellschaft, Klagenfurt (Group)	25.0%
Kremser Bank und Sparkassen Aktiengesellschaft, Krems an der Donau	0.0%
Open Joint-Stock Company "Erste Bank", Kiev	100.0%
s Wohnbaubank AG, Vienna (Group)	90.6%
Salzburger Sparkasse Bank Aktiengesellschaft, Salzburg	98.7%
Slovenská sporiteľňa a.s., Bratislava (Group)	100.0%
Sparkasse Baden, Baden	0.0%
Sparkasse Bludenz Bank AG, Bludenz	0.0%
Sparkasse Bregenz Bank Aktiengesellschaft, Bregenz	0.0%
Sparkasse der Stadt Feldkirch, Feldkirch	0.0%
Sparkasse der Stadt Kitzbühel, Kitzbühel	0.0%
Sparkasse Eferding-Peuerbach-Waizenkirchen, Eferding	0.0%
Sparkasse Hainburg-Bruck-Neusiedl Aktiengesellschaft, Hainburg an der Donau	75.0%
Sparkasse Horn-Ravelsbach-Kirchberg Aktiengesellschaft, Horn	0.0%
Sparkasse Imst AG, Imst	0.0%
Sparkasse Kremstal-Pyhrn Aktiengesellschaft, Kirchdorf a.d. Krems	30.0%
Sparkasse Kufstein, Tiroler Sparkasse von 1877, Kufstein	0.0%
Sparkasse Mühlviertel-West Bank Aktiengesellschaft, Rohrbach	40.0%
Sparkasse Neunkirchen, Neunkirchen	0.0%
SPARKASSE NIEDERÖSTERREICH MITTE WEST AKTIENGESELLSCHAFT, St. Pölten	0.0%
Sparkasse Schwaz AG, Schwaz (Group)	0.0%
Sparkasse Voitsberg-Köflach Bankaktiengesellschaft, Voitsberg	5.0%
Sparkasse Waldviertel-Mitte Bank AG, Zwettl	0.0%
Steiermärkische Bank und Sparkassen Aktiengesellschaft, Graz (Group)	25.0%
Tiroler Sparkasse Bankaktiengesellschaft Innsbruck, Innsbruck (Group)	75.0%
Waldviertler Sparkasse von 1842 AG, Waidhofen an der Thaya	0.0%
Weinviertler Sparkasse AG, Hollabrunn	99.5%
Wiener Neustädter Sparkasse, Wiener Neustadt	0.0%

Company name, registered office	Interest of Erste Group
Other financial institutions	
EBV – Leasing Gesellschaft m.b.H. & Co. KG., Vienna (Group)	100.0%
EGB Ceps Beteiligungen GmbH, Wien	100.0%
EGB Ceps Holding GmbH, Wien	100.0%
ERSTE CARD CLUB d.d., Zagreb	69.3%
ERSTE FACTORING d.o.o., Zagreb	84.7%
IMMORENT Aktiengesellschaft, Vienna (Group)	100.0%
Others	
Erste Finance (Delaware) LLC, City of Wilmington	100.0%
Associates accounted for at equity	
Credit institutions	
„Spar – Finanz“ – Investitions- und Vermittlungs-Aktiengesellschaft, Vienna	50.0%
Intermarket Bank AG, Vienna (Group)	25.2%
NÖ Beteiligungsfinanzierungen GmbH, Vienna	30.0%
NÖ Bürgschaften GmbH, Vienna	25.0%
PayLife Bank GmbH (former Europay Austria Zahlungsverkehrssysteme GmbH), Vienna	18.2%
PRIVATINVEST BANK AKTIENGESELLSCHAFT, Salzburg	25.7%
Prvá stavebná sporitelna, a.s., Bratislava (Group)	35.0%
Others	
APHRODITE Bauträger Aktiengesellschaft, Vienna	45.3%
ASC Logistik GmbH, Vienna	24.0%
ERSTE d.o.o., Zagreb	33.6%
Gelup GesmbH, Vienna	31.7%
Immobilien West Aktiengesellschaft, Salzburg	49.3%
Informations-Technologie Austria GmbH, Vienna	39.0%
Let's Print Holding AG, Graz	42.0%
LTB Beteiligungs GmbH, Vienna	25.0%
RSV Beteiligungs GmbH, Vienna	33.3%
Sparkassen Immobilien Aktiengesellschaft, Vienna (Group)	9.0%
VBV – Betriebliche Altersvorsorge AG, Vienna	26.9%
VERMREAL Liegenschaftserwerbs- und -betriebs GmbH, Vienna	25.6%

Vienna, 2 March 2010

The Management Board

Andreas Treichl mp Chairman	**Franz Hochstrasser mp** Vice Chairman
Herbert Juranek mp Member	**Bernhard Spalt mp** Member
Manfred Wimmer mp Member	**Johannes Leobacher mp** Member

AUDITOR´S REPORT
(REPORT OF THE INDEPENDENT AUDITORS)[1)]

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Erste Group Bank AG, Wien and its subsidiaries (hereinafter referred to as "the Company"), for the financial year from 1 January 2009 to 31 December 2009. These consolidated financial statements comprise the consolidated balance sheet as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated cash flow statement and the consolidated statement of changes in equity for the year ended 31 December 2009, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements and for the Group Accounting

The management of Erste Group Bank AG is responsible for the group accounting as well as the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility and Description of the Type and Extent of the Statutory Audit

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and in accordance with International Standards on Auditing, issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

Our audit did not give rise to any objections. Based on the results of our audit in our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the group as of 31 December 2009, and of its financial performance and its cash flows for the financial year from 1 January 2009 to 31 December 2009 in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Statement on the Consolidated Management Report

Laws and regulations applicable in Austria require us to perform audit procedures to determine whether the consolidated management report is consistent with the consolidated financial statements and whether the other disclosures made in the consolidated management report are misleading to the group's position. The audit report must also include a statement as to whether the consolidated management report is consistent with the consolidated financial statements and if the disclosures pursuant to section 243a UGB are appropriate. In our opinion, the consolidated management report for the group is consistent with the consolidated financial statements. The disclosures pursuant to section 243a UGB are appropriate.

Vienna, 2 March 2010

Sparkassen-Prüfungsverband
(Prüfungsstelle)
(Austrian Savings Bank Auditing Association)
(Audit Agency)
(Bank auditor)

Gerhard Margetich mp	Matthäus Tuschl mp
Certified Public Accountant	Certified Public Accountant

Ernst & Young
Wirtschaftsprüfungsgesellschaft m.b.H.

Helmut Maukner mp	Elisabeth Glaser mp
Certified Public Accountant	Certified Public Accountant

1) The report (in the German language, or translations into another language, including shortened or amended versions) may not be made public or used by third parties, when reference is made in part or in whole to the auditor's report, without the express written consent of the auditors.

STATEMENT OF ALL MEMBERS OF THE MANAGEMENT BOARD

We confirm to the best of our knowledge that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group as required by the applicable accounting standards and that the group management report gives a true and fair view of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties the Group faces.

Vienna, 2 March 2010

The Management Board

Andreas Treichl mp
Chairman

Franz Hochstrasser mp
Vice Chairman

Herbert Juranek mp
Member

Bernhard Spalt mp
Member

Manfred Wimmer mp
Member

Johannes Leobacher mp
Member

Glossary

Book value per share
Total equity attributable to owners of the parent, of a public company divided by the number of shares outstanding excluding treasury shares.

Cash return on equity
Also referred to as cash-ROE. Calculated as return on equity, but excluding the impact of non-cash items on net profit for the year attributable to owners of the parent such as goodwill impairment and amortisation of customer relationships.

Cash earnings per share
Calculated as earnings per share, but excluding the impact of non-cash items on net profit for the year attributable to owners of the parent, such as goodwill impairments and amortisation of customer relationships.

CEE (Central and Eastern Europe)
Covers the new member states of the EU that joined in 2004 and 2007 as well as the CIS countries and the states that evolved from the former Yugoslavia.

Core tier-1 ratio (total risk)
Tier-1 capital (excluding hybrid capital pursuant to section 24 (2) 5 and 6 Banking Act) after regulatory deductions in relation to the calculation base for the capital requirement pursuant to Section 22 (1) Banking Act

Cost/Income Ratio
General administrative expenses as a percentage of operating income.

Coverage ratio (risk provisions)
Risk provisions as a percentage of non-performing loans excluding collateral.

Dividend yield
Dividend payment of the fiscal year as a percentage of the year-end closing price or the most recent price of the share.

Earnings per share
Net profit for the year attributable to owners of the parent, divided by average shares outstanding.

Interest-bearing assets
Total assets less cash, trading assets, tangible and intangible fixed assets, tax assets and other assets.

Net interest margin
Net interest income as a percentage of average interest-bearing assets, calculated on a monthly basis.

Operating income
Consists of net interest income, net commission income and trading result.

Operating result
Operating income less operating expenses (=general administrative expenses).

Price/earnings ratio
Closing share price of the fiscal year divided by earnings per share. Usually used for valuation comparisons.

Market capitalisation
Overall equity value of a company calculated by multiplying the share price by the number of shares outstanding.

NPL ratio
Non-performing loans as a percentage of total customer loans.

Return on equity
Also referred to as ROE – net profit for the year attributable to owners of the parent, as a percentage of average equity. Average equity is calculated on the basis on month-end values.

Risk categories
The classification of credit assets into the risk classes is based on Erste Group`s internal rating of customers. Erste Group employs internal rating systems that, for private individuals, have eight rating grades for customers not in default and one grade for customers in default; for all other clients, the internal rating systems have 13 rating grades for customers not in default and one rating grade for those in default.

Risk category – low risk
The borrower demonstrates a strong repayment capacity; new business generally involves clients in this risk class.

Risk category – management attention
The borrower‘s financial situation is rather good, but his/her repayment ability may be negatively affected by unfavourable economic conditions. New business with clients in this risk class requires adequate structuring of the credit risks, e.g. by way of collateral.

Risk category – substandard
The borrower is vulnerable to negative financial and economic impacts; such loans are managed in specialised risk management departments.

Risk category – non-performing
Non-performing: at least one of the default criteria under Basel II, e.g. total repayment unlikely, interest or principal payment more than 90 days past due, restructuring resulting in a loss to lender, realisation of a loan loss, or opening of bankruptcy proceedings.

Share capital
Total equity attributable to owners of the parent of a company, subscribed by the shareholders at par.

Solvency ratio
The sum of tier-1, tier-2 and tier-3 capital, after regulatory deductions in relation to the calculation base for the capital requirement pursuant to Section 22(1) Banking Act.

Tax rate
Taxes on income as a percentage of pre-tax profit from continuing operations.

Tier-1 ratio (credit risk)
Tier-1 capital (including hybrid capital pursuant to Section 24 (2) 5 and 6 Banking Act) after regulatory deductions in relation to risk-weighted assets (pursuant to Section 22 (2) Banking Act).

Tier-1 ratio (total risk)
Tier-1 capital (including hybrid capital pursuant to Section 24 (2) 5 and 6 Banking Act) after regulatory deductions in relation to the calculation base for the capital requirement pursuant to Section 22 (1) Banking Act.

Total shareholder return
Annual performance of an investment in Erste Group Bank AG shares including all income streams, such as dividends.

Important Addresses

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