

# Financial statements 2008

**Erste Bank der oesterreichischen Sparkassen AG****Assets**

	€	€	K € 31.12.2007	K € 31.12.2007
<b>1. Cash in hand and balances with central banks</b>		147.685.059,40		0
<b>2. Treasury bills and other bills eligible for refinancing at central banks</b>		1.809.907.546,88		0
a) treasury bills and similar securities	1.809.907.546,88		0	
b) other bills eligible for refinancing at central banks	0,00		0	
<b>3. Loans and advances to credit institutions</b>		4.739.021.912,82		5.438
a) repayable on demand	216.573.178,92		108	
b) other loans and advances	4.522.448.733,90		5.330	
<b>4. Loans and advances to customers</b>		18.066.014.205,34		0
<b>5. Bonds and other fixed-income securities</b>		919.369.695,33		0
a) issued by public borrowers	0,00		0	
b) issued by other borrowers	919.369.695,33		0	
of which: own bonds	0,00		0	
<b>6. Shares and other variable-yield securities</b>		1.055.010,83		0
<b>7. Equity interests</b>		442.487.172,29		0
of which: in credit institutions	415.375.093,16		0	
<b>8. Shares in group companies</b>		748.234.595,66		0
of which: in credit institutions	518.591.637,75		0	
<b>9. Intangible fixed assets</b>		22.488.606,82		0
<b>10. Tangible fixed assets</b>		25.959.770,41		0
of which: land and buildings used by the credit institution for its own business operations	0,00		0	
<b>11. Own shares and shares in a controlling company</b>		0,00		0
of which: par value	0,00		0	
<b>12. Other assets</b>		1.883.733.568,01		63
<b>13. Subscribed capital called-up, but not yet paid-up</b>		0,00		0
<b>14. Prepaid expenses</b>		9.319.946,41		0
<b>Total Assets</b>		28.815.277.090,20		5.501

**Items shown below the Balance Sheet****1. Foreign assets**

	7.135.438.195,53		0
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## Balance sheet at 31 December 2008

## Erste Bank der oesterreichischen Sparkassen AG

## Liabilities and Equity

	€	€	K € 31.12.2007	K € 31.12.2007
<b>1. Amounts owed to credit institutions</b>		9.679.178.028,16		0
a) repayable on demand	80.723.610,26		0	
b) with agreed maturity dates or periods of notice	9.598.454.417,90		0	
<b>2. Amounts owed to customers</b>		15.747.804.085,29		0
a) savings deposits	9.362.077.520,58		0	
of which:				
aa) repayable on demand	2.462.162.806,39		0	
bb) with agreed maturity dates or periods of notice	6.899.914.714,19		0	
b) other liabilities	6.385.726.564,71		0	
of which:				
aa) repayable on demand	4.370.913.864,65		0	
bb) with agreed maturity dates or periods of notice	2.014.812.700,06		0	
<b>3. Debts evidenced by certificates</b>		0,00		0
a) bonds issued	0,00		0	
b) other debts evidenced by certificates	0,00		0	
<b>4. Other liabilities</b>		1.840.093.575,93		23
<b>5. Deferred income</b>		70.132.027,32		0
<b>6. Provisions</b>		102.304.365,81		5
a) provisions for severance payments	0,00		0	
b) pension provisions	0,00		0	
c) provisions for taxes	0,00		0	
d) other	102.304.365,81		5	
<b>6.A Special fund for general banking risks</b>		0,00		0
<b>7. Subordinated liabilities</b>		400.000.000,00		0
<b>8. Supplementary capital</b>		0,00		0
<b>9. Subscribed capital</b>		587.924.000,00		5.400
<b>10. Capital reserves</b>		142.808.000,00		61
a) subject to legal restrictions	140.062.000,00		61	
b) other	2.746.000,00		0	
c) for own shares and shares in a controlling company	0,00		0	
<b>11. Revenue reserves</b>		30.650.000,00		0
a) legal reserve	0,00		0	
b) statutory reserve	0,00		0	
c) other reserves	30.650.000,00		0	
d) for own shares and shares in a controlling company	0,00		0	
<b>Carry forward</b>		28.600.894.082,51		5.489

**Balance sheet at 31 December 2008****Erste Bank der oesterreichischen Sparkassen AG****Liabilities and Equity**

	€	€	K € 31.12.2007	K € 31.12.2007
<b>Carry forward</b>		28.600.894.082,51		5.489
<b>12. Reserve pursuant to Section 23 (6) of the Austrian Banking Act (BWG)</b>		120.013.000,00		12
<b>13. Retained earnings</b>		94.370.007,69		0
<b>14. Untaxed reserves</b>		0,00		0
a) valuation reserve resulting from special depreciation	0,00		0	
b) other untaxed reserves	0,00		0	
of which:				
aa) investment reserve pursuant to Section 9 of the Austrian Income Tax Act (EStG) 1988	0,00		0	
bb) investment allowance pursuant to Section 10 of the Austrian Income Tax Act (EStG) 1988	0,00		0	
cc) rent reserve pursuant to Section 11 of the Austrian Income Tax Act (EStG) 1988	0,00		0	
dd) reserve transferred pursuant to Section 12 (7) of the Austrian Income Tax Act (EStG) 1988	0,00		0	
<b>Total Liabilities and Equity</b>		28.815.277.090,20		5.501

**Items shown below the Balance Sheet**

<b>1. Contingent liabilities</b>		5.844.151.690,36		130
of which:				
a) acceptances and endorsements	0,00		0	
b) guarantees and assets pledged as collateral security	5.844.151.690,36		130	
<b>2. Commitments</b>		4.796.094.024,45		950
of which: commitments arising from repurchase agreements	0,00		0	
<b>3. Liabilities arising from transactions on a trust basis</b>		288.812.286,39		0
<b>4. Total net capital pursuant to Section 23 of the Austrian Banking Act (BWG)</b>		1.214.133.410,67		5.474
of which: capital pursuant to Section 23 (14) 7 of the Austrian Banking Act (BWG)	0,00		0	
<b>5. Capital required pursuant to Section 22 (1) of the Austrian Banking Act (BWG)</b>		901.175.517,66		5.000
of which: capital required pursuant to Section 22 (1) 1 and 4 of the Austrian Banking Act (BWG)	900.171.517,66		0	
<b>6. Foreign liabilities</b>		649.968.835,75		0

## Erste Bank der oesterreichischen Sparkassen AG

	€	€	K € 2007	K € 2007
<b>1. Interest and similar income</b>		1.213.157.791,86		220
of which: from fixed-income securities	124.289.824,70		0	
<b>2. Interest and similar expenses</b>		841.164.588,98		0
<b>I. NET INTEREST INCOME</b>		<b>371.993.202,88</b>		<b>220</b>
<b>3. Income from securities and equity interests</b>		62.661.371,20		0
a) income from shares, other ownership interests and variable-yield securities	128.947,48		0	
b) income from equity interests	9.808.912,03		0	
c) income from shares in group companies	52.723.511,69		0	
<b>4. Fee and commission income</b>		265.567.302,89		0
<b>5. Fee and commission expenses</b>		63.690.285,39		0
<b>6. Net profit on trading activities</b>		13.572.297,04		0
<b>7. Other operating income</b>		170.798,62		0
<b>II. OPERATING INCOME</b>		<b>650.274.687,24</b>		<b>220</b>
<b>8. General administrative expenses</b>		409.599.907,00		158
a) staff costs	259.873.180,22		65	
of which:				
aa) wages and salaries	181.640.907,85		65	
bb) expenses for statutory social-security contributions and compulsory contributions related to wages and salaries	45.614.055,63		0	
cc) other employee benefits	3.634.119,10		0	
dd) expenses for retirement benefits	13.068.953,77		0	
ee) allocation to the pension provision	0,00		0	
ff) expenses for severance payments and payments to severance-payment funds	15.915.143,87		0	
b) other administrative expenses	149.726.726,78		93	
<b>9. Depreciation and amortisation of asset items 9 and 10</b>		18.149.677,19		0
<b>10. Other operating expenses</b>		2.350.200,80		0
<b>III. OPERATING EXPENSES</b>		<b>430.099.784,99</b>		<b>158</b>
<b>IV. OPERATING RESULTS</b>		<b>220.174.902,25</b>		<b>62</b>

	€	€	K € 2007	K € 2007
Carry forward (IV. Operating results)		220.174.902,25		62
11. Value adjustments of loans and advances and allocations to provisions for contingent liabilities and commitments		138.769.474,34		0
12. Release of value adjustments of loans and advances and provisions for contingent liabilities and commitments		62.745.828,86		0
13. Value adjustments of securities valued as financial fixed assets and of equity interests and shares in group companies		29.582.063,41		0
14. Release of value adjustments of securities valued as financial fixed assets and of equity interests and shares in group companies		11.045.603,13		0
V. RESULTS FROM ORDINARY BUSINESS ACTIVITIES		125.614.796,49		62
15. Extraordinary income of which: withdrawals from the special fund for general banking risks	0,00	0,00	0	0
16. Extraordinary expenses of which: allocation to the special fund for general banking risks	0,00	332.067,59	0	0
17. Extraordinary results (sub-total of items 15 and 16)		- 332.067,59		0
18. Taxes on income		0,00		2
19. Other taxes not included under item 18		261.288,91		54
VI. ANNUAL SURPLUS		125.021.439,99		6
20. Movements in reserves off which: allocation to Reserve pursuant to Section 23 (6) of the Austrian Banking Act (BWG) withdrawals from Reserve pursuant to Section 23 (6) of the Austrian Banking Act (BWG)	600,00  0,00	30.651.432,30	0  0	- 4
VII. PROFIT FOR THE YEAR		94.370.007,69		10
21. Profit brought forward from previous year		0,00		- 10
22. Profit transfered based on a profit transfer agreement		0,00		0
VIII. ACCUMULATED PROFIT		94.370.007,69		0

# Notes to the Financial Statements 2008

## Erste Bank der oesterreichischen Sparkassen AG

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Attachment 1 to the Notes: Statement of fixed assets and long term assets

Attachment 2 to the Notes: Companies owned by Erste Bank as at 31/12/2008

## **1 GENERAL INFORMATION**

### **1.1 Introduction**

The de-merger of the Business Division Austria was legally initiated with the resolution of the Management Board of Erste Bank AG dated 12 March 2008 and of the Management Board of Dritte Wiener Vereins-Sparcasse AG dated 25 March 2008, the approval of the Supervisory Board members of the former Erste Bank AG and of Dritte Wiener Vereins-Sparcasse AG dated 26 March 2008 and the signing of the de-merger agreement that same day, as well as the approval of the Annual General Shareholders Meeting of Dritte Wiener Vereins-Sparcasse AG dated 5 May 2008 and the Annual General Shareholders' Meeting of the former Erste Bank AG dated 6 May 2008. The de-merger and transfer of the Austrian customer business division of the former Erste Bank AG to its wholly-owned subsidiary company Dritte Wiener Vereins-Sparcasse AG was executed in August 2008 and became legally valid with the entry of the de-merger into the companies register on 9 August 2008. During the de-merger process the acquiring company Dritte Wiener Vereins-Sparcasse AG renamed itself to "Erste Bank der oesterreichischen Sparkassen AG", while the transferring company Erste Bank AG assumed the name "Erste Group Bank AG".

The figures disclosed in the balance sheet and income statement of the acquiring company Dritte Wiener Vereins-Sparcasse AG at 31 December 2007 provide the basis for year-on-year comparisons with the prior year. However, due to the completely different business structure they are severely limited in their meaningfulness.

The effective date of the de-merger is 31 December 2007. As of 1 January 2008 all actions, benefits and burdens, rights and obligations of the Business Division Austria are for the account of Erste Bank, the acquiring company.

The 2008 annual financial statements have been prepared in accordance with the provisions of the Austrian Commercial Code (UGB) and the relevant provisions of the Austrian Banking Act (BWG), as amended.

Erste Bank der oesterreichischen Sparkassen AG (hereinafter "Erste Bank") is a subsidiary company of Erste Group Bank AG and therefore included in the consolidated financial statements of Erste Group Bank AG in Vienna.

The consolidated financial statements prepared by the group's parent company are disclosed in Vienna.

### **1.2 Haftungsverbund (Cross guarantee system)**

Erste Bank is a member of the Haftungsverbund which was formed by the Savings Bank Group in 2001 and became effective on 1 January 2002. In addition to Erste Group Bank AG, nearly all of Austria's savings banks belong to this system.

According to the provisions of the agreement in principle, which was concluded between Erste Group Bank AG and the member savings banks, the partners must reimburse solidarily all amounts owed to customers (all deposits pursuant to Section 1 (1) no. 1 BWG, all receivables accruing from credit balances from the banking business, all receivables accruing from the issue of securities, with the exception of receivables from qualifying capital items in accordance with Section 23 BWG and receivables from criminal transactions).

In accordance with the requirements of the BWG and in consideration of general maximum limits, individual members of the Haftungsverbund may need to provide assistance to other members (such as giving liquidity assistance, giving loans or guarantees and providing equity capital), and

in the case of Section 93 (3) no. 1 BWG, to service the guaranteed customers deposits of a member of the Haftungsverbund. The scope of the individual services to be provided by individual members of the Haftungsverbund where needed cannot therefore be determined beforehand. Any contributions made by the members of the Haftungsverbund under the statutory deposit guarantee system pursuant to Sections 93 ff BWG are taken into account.

The guarantee obligation is entered in the balance sheet as a memorandum item carrying the notional amount of € 1.00, as it is impossible to determine the potential liability of Erste Bank within the Haftungsverbund.

Since the amendment to the BWG which came into effect on 1 September 2002, the members of the Haftungsverbund are considered a group of credit institutions as defined in Section 30 BWG, with Erste Group Bank AG as top-tier credit institution.

This makes it necessary for Erste Bank Group AG to consolidate the qualifying capital (in acc. with Section 24 BWG) and the risk-weighted assets (in acc. with Section 22 BWG) of the members of the Haftungsverbund.

For the purpose of inclusion into the consolidated financial statements of the Haftungsverbund, an International Financial Reporting Standards (IFRS)-compliant reporting package is transmitted to Erste Group Bank AG. In 2007, collaboration between the savings banks was further strengthened by way of a supplementary agreement.

### **1.3 Investor information pursuant to Section 26 (1) of the BWG**

For other unaudited information in accordance with Section 26 (1) BWG, please refer to the website of Erste Group Bank AG.

### **1.4 Letter of comfort**

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

## **2 NOTES ON ACCOUNTING AND VALUATION POLICY**

### **2.1 Standard rule**

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

### **2.2 Measurement methods/valuation policy**

### **2.2.1 Receivables and liabilities in foreign currency**

Receivables and liabilities in foreign currency were measured at the ECB reference rate as at 31 December 2008. All currencies were measured at the foreign currency rate applicable on the balance sheet date.

MUM currencies were converted using the fixed euro factors.

Foreign exchange forward transactions and currency swaps were rated at the forward currency rate.

### **2.2.2 Equity interests and shares in group companies**

Participating interests and shares in affiliated undertakings were recognised at cost of acquisition, except where a downward revision was necessary due to impairments presumed to be permanent. Where necessary, adequate provisions were established to cover the losses incurred by subsidiaries.

### **2.2.3 Loans and advances**

Loans and advances to credit institutions and customers, bills of exchange and other assets were measured in accordance with Section 207 UGB. Appropriate value adjustments have been made to account for recognisable risks. Write-ups have been made from the reversal of value adjustments. Retail loans were measured in consideration of statistical risk factors. Provision in the form of portfolio corrections were made where applicable.

### **2.2.4 Securities**

For bonds and other fixed-income securities, the difference between acquisition cost and redemption value was amortised pro rata temporis pursuant to Section 56 (2) BWG, or recognised as income pro rata temporis over the residual time to maturity until redemption pursuant to Section 56 (3) BWG. Sustained depreciation was written off pursuant to Section 204 (2) UGB at the lower present value as at the balance sheet date. Securities in the trading portfolio and other securities in the available for sale portfolio were measured at market value pursuant to Section 207 UGB and Section 56 (5) BWG.

### **2.2.5 Intangible and tangible assets**

Intangible and tangible assets were measured at purchase cost or production cost less planned and unplanned depreciation.

The amortisation/depreciation period for

- intangible assets is 4 to 15 years.
- buildings is 25 to 50 years
- fixtures and fittings is 5 to 20 years

Low-value fixed assets were fully written off in the year of purchase.

### **2.2.6 Derivatives**

In derivatives trading the assets and liabilities were measured as follows:

Hedging products and their underlying asset or liability were shown as a unit in the balance sheet. Interest flows on other products of the non-trading portfolio (strategic positions) during the

reporting period were recognised in the income statement. Negative market values were recognised in the income statement, while positive market values were not recognised.

### **2.2.7 Liabilities**

Liabilities have been recognised with their repayment values. Capital savings accounts and savings bonds were recognised at their pro rate annual values.

### **2.2.8 Provisions**

Provisions were set aside in the amount deemed necessary in standard commercial practice.

Obligations due to severance payment entitlements of all active employees of Erste Bank AG as of 31 December 2007 were outsourced to S-Versicherung AG in 2007. Severance payment entitlements to be outsourced were measured based on actuarial expertise according to IFRS principles. Entitlements for severance payments were measured in accordance with IAS 19 using the Projected Unit Credit Method. In the reporting year, the parameters used in calculations were adapted as follows to take into account the changed market conditions: the discount rate was increased from 5.0% to 5.5% and the pension benefits were increased from 2.5% to 3.0%. Severance entitlements of Erste Bank measured under provisions of commercial law and based on the above parameters amounted to € 81,013,668.00 and were shown as a contingent liability in the balance sheet. The credit dedicated for performance of outsourced severance requirements with the insurer as of 31 December 2008 is equivalent to the amount of imputed severance provisions. The outsourcing of severance entitlements to S-Versicherung AG does not result in any changes to employee claims against Erste Bank, which continues to be liable for employees' severance entitlements.

The provision for anniversary bonuses was measured in the same way as the severance payment provision, and an ancillary wage cost addition of 8% was added.

### **2.2.9 Assets held in trust**

Recoverable trust assets were declared as off-balance sheet item 3 "Commitments arising from agency service" in accordance with Section 48 (1) BWG.

## **3 DEPARTURE FROM ACCOUNTING AND VALUATION METHODS**

No changes were made to the accounting and measurement methods vis-à-vis the prior year.

## 4 NOTES ON THE BALANCE SHEET

### 4.1 Maturity structure of loans and advances, deposits and liabilities

Maturity structure of loans and advances as well as credit liabilities to credit institutions and customers that are not payable on demand (by remaining time to maturity):

	31/12/2008 €	31/12/2007 € '000
Loans and advances, not payable on demand		
up to 3 months	6,040,740,969.73	5,330
more than 3 months and up to 1 year	2,978,107,754.11	0
more than 1 year and up to 5 years	5,112,736,529.36	0
more than 5 years	7,618,616,611.42	0
Liabilities, not payable on demand		
up to 3 months	7,030,852,565.24	0
more than 3 months and up to 1 year	6,236,419,593.15	0
more than 1 year and up to 5 years	4,179,574,867.63	0
more than 5 years	1,066,334,806.13	0

### 4.2 Assets and liabilities in foreign currencies

Foreign currency-denominated assets totalled € 3,753,567,015.16 (prior year: € 0 thousand), whereas foreign currency-denominated liabilities totalled € 3,749,937,180.32 (prior year: € 0 thousand).

### 4.3 Loans and advances as well as liabilities to affiliated undertakings and companies in which participating interests were held

	Affiliated undertakings		Companies in which participating interests- were held	
	31/12/2008 €	31/12/2007 € '000	31/12/2008 €	31/12/2007 € '000
Loans and advances to credit institutions	4,327,032,170.79	5,438	152,031,094.91	0
Loans and advances to customers	517,538,939.46	0	234,962,870.64	0
Liabilities to credit institutions	6,414,821,869.84	0	46,926,814.15	0
Liabilities to customers (non-banks)	141,104,716.10	0	23,635,420.11	0

Among these the most important companies are:

Loans and advances to affiliated undertakings:

Erste Group Bank AG  
 Bausparkasse der österreichischen Sparkassen AG  
 EBV – Leasing Gesellschaft mbH & Co KG  
 s Wohnbaubank AG  
 DIE ERSTE Immobilienvermietungsgesellschaft mbH  
 Österreichisches Volkswohnungswerk Gemeinnützige GesmbH

Loans and advances to companies with participating interest were held

Intermarket Bank AG  
 PayLife Bank GmbH  
 Informations-Technologie Austria GmbH  
 Neue Eisenstädter Gemeinnützige Bau-, Wohn- u. SiedlungsgesmbH

Liabilities to affiliated undertakings:

Erste Group Bank AG  
 s Wohnbaubank AG  
 Procurement Services GmbH

Liabilities to companies with participating interests

Intermarket Bank AG

#### 4.4 Relationships with affiliated undertakings

Business relationships with affiliated undertakings were carried on in application of customary market conditions.

Erste Bank is part of a tax group in accordance with Section 9 KStG, with Erste Group Bank AG acting as the top-tier corporation. Under an existing group and tax equalisation agreement a tax allocation in the amount of the corporation tax payable on the taxable profits is paid to Erste Group Bank AG. Since tax losses from prior years are recorded and offset against their current tax liability by the group member companies themselves, there is no obligation to make tax allocation payments to Erste Group Bank AG.

#### 4.5 Equity interests and shares in group companies

A detailed breakdown of the key participating interests and shares in affiliated undertakings is given in attachment 2 to the notes "Details on the Holdings of Erste Bank as at 31 December 2008".

#### 4.6 Trading book

Erste Bank does not keep a trading book.

#### 4.7 Securities

Securities, participating interests and shares in affiliated undertakings are disclosed in balance sheet asset items 5 to 8 as follows:

	listed	listed for trade, unlisted	of which measured like fixed assets other measurement	
	€	€	€	€
Debt securities including				
Fixed-income securities	451,412,462.99	467,957,232.34	812,119,645.93	107,250,049.40

#### 4.8 Value differences for bonds and other fixed-income securities

In some cases the purchase cost for bonds and other fixed-income securities was higher than the repayable amount. The remaining difference as at 31 December 2008 was € 8,091,318.64.

In some cases the purchase cost for bonds and other fixed-income securities was lower than the repayable amount. The remaining difference as at 31 December 2008 was € 15,009,685.58.

#### 4.9 Breakdown of the differences of the securities listed for trade on the stock exchange not held as financial fixed assets

At 31 December 2008 the purchase cost for securities listed on the stock exchange that were not held as financial fixed assets and that were reported at market value was lower than their market value by a total of € 930,364.50.

#### 4.10 Derivative financial instruments

	Par value purchase €	Par value sale €	Carrying value €	Fair value positive €	Fair value negative €
Interest Rate Contracts					
OTC products					
Interest rate options	3,328,870,617.84	3,323,870,617.85	18,299.70	51,301,684.18	51,448,174.77
Interest rate swaps	6,154,566,095.20	6,154,566,095.20	11,076,461.80	1,117,265,746.08	1,086,201,697.76
Currency Contracts					
OTC products					
Currency options	659,988,501.13	671,989,944.34	0.00	50,338,245.97	50,338,245.97
Currency swaps	3,737,847,622.40	3,736,813,021.61	28,563.73	290,010,289.44	289,960,498.89
Precious Metal Contracts					
OTC products					
Precious metal options	25,227,359.28	25,227,359.28	-141.16	5,799,242.90	5,799,242.90
Total					
OTC products	13,906,500,195.85	13,912,467,038.28	11,123,184.07	1,514,715,208.57	1,483,747,860.30
Sum total	13,906,500,195.85	13,912,467,038.28	11,123,184.07	1,514,715,208.57	1,483,747,860.30

The table above does not take into account any possible hedge connection with items on the assets and/or liabilities side.

The fair value is the amount that could be attained in an active market through the sale of a financial instrument, or correspondingly the amount that would be payable for its purchase. Market prices were used where available. Where no market price was available, valuation models were used, particularly the discounted cash flow method.

The present value of options was determined using recognised option pricing models. The valuation models used include models of the Black-Scholes class, binomial models, as well as Hull-White and BGM models.



**4.11 Fixed-asset instruments**

	Carrying value	Fair value	Hidden liabilities	Hidden reserves
	€	€	€	€
Treasury bills	40,622,158.81	39,974,120.00	648,038.81	
	1,034,807,828.32	1,057,045,775.00		22,237,946.68
Loans and advances to credit institutions	125,000,000.00	117,671,531.25	7,328,468.75	
Debt securities and other fixed-rate securities	597,679,135.64	537,337,271.12	60,341,864.52	
	214,440,510.29	219,381,820.65		4,941,310.36
Total	763,301,294.45	694,982,922.37	68,318,372.08	
	1,249,248,338.61	1,276,427,595.65		27,179,257.04

Where an asset is impaired and not written off, the impairment is presumed to be impermanent.

The fair value is the amount that could be attained in an active market through the sale of a financial instrument, or correspondingly the amount that would be payable for its purchase. Market prices were used where available. Where no market price was available, valuation models were used, particularly the discounted cash flow method.

**4.12 Bonds maturing in the following year**

In the following year, bonds and other fixed-income securities of a total value of € 746,971,744.76 (prior year: € 0 thousand).

**4.13 Treasury stock and additions**

As in the prior year, no transactions were carried out with treasury shares during the fiscal year.

**4.14 Fiduciary business**

The carrying values of the assets and liabilities below include the following fiduciary transactions:

	31/12/2008	31/12/2007
	€	€ '000
Fiduciary transactions (Section 6 (1a) Mortgage Bank Act)	2,594,809,068.95	0

**4.15 Subordinated assets**

	31/12/2008	31/12/2007
	€	€ '000
Loans and advances to credit institutions	9,000,000.00	0
Loans and advances to customers	10,055,246.50	0
Debt securities	14,840,450.00	0

The following assets were subordinated vis-à-vis affiliated undertakings or businesses in which participating interests were held:

	31/12/2008 €	31/12/2007 € '000
Loans and advances to credit institutions	9,000,000.00	0
Loans and advances to customers	3,455,246.50	0

#### 4.16 Fixed assets

Changes in assets are shown in attachment 1 at the end of the notes (Statement of changes in fixed assets and long-term assets).

#### 4.17 Other assets

Other assets included the following main items:

	31/12/2008 €	31/12/2007 € '000
Receivables from the financial authorities	56,748,000.00	0
Receivables from securities trading (incl. securities lending)	1,598,619,896.74	0
Receivables from participating interests and affiliated undertakings	75,827,254.18	0
Recognised interest and commission income	132,498,734.82	63

#### 4.18 Intangible fixed assets

Intangible fixed assets included gains due to merger and goodwill of € 1,393,479.00 (prior year: € 0 thousand) which are the result of cash contributions, as well as the obligatory continuation of the acquired carrying amounts, as related to mergers between individual savings banks.

Under a conservative estimate of the economic life of the assets, the depreciable life was set at 15 years.

The intangible fixed assets include assets of a value of € 18,274,792.80 (prior year: € 0 thousand) acquired from an affiliated undertaking. In the reporting year, € 3,472,546.46 worth of such assets were acquired (prior year: € 0 thousand).

#### 4.19 Deferred tax assets

The deferred tax asset pursuant to Section 198 (10) UGB was € 56,748,000.00 (prior year: € 0 thousand). This asset item results from the transfer of the Business Division Austria to Erste Bank and is recorded on the asset side of the balance sheet under item 12, other assets, with an unchanged value.

#### 4.20 Leasing and rental obligations

In the following fiscal year, there will be obligations totalling € 19,179,000.00 (prior year: € 0 thousand) for leased or rented property and equipment not disclosed in the balance sheet; the sum of these obligations over the next five years will be € 105,976,000.00 (prior year: € 0 thousand).

#### 4.21 Other liabilities

Other liabilities included the following main items:

	31/12/2008 €	31/12/2007 € '000
Liabilities		
to the financial authorities	23,754,472.53	0
from securities transactions (including securities lending)	1,598,639,539.47	0
from interest and commission expenses	152,169,781.85	22

#### 4.22 Other provisions

Other provisions, totalling € 102,304,365.81, consisted of risk provisions (€ 50,791,029.29); provisions for personnel costs (€ 33,289,904.00), which were mainly created for performance bonuses and employee anniversaries; and general provisions (€ 18,223,432.52), which were mainly created for damage events and valuation losses.

#### 4.23 New subordinated liabilities

The following subordinated debt raised during the year exceeded 10% of total subordinated liabilities:

Amount in €	Currency	Interest rate	Maturity	Right to extraord. termination
400,000,000.00	€	5.193%	05/08/2018	yes

At the balance sheet date 31 December 2008 there were no additional subordinated liabilities at Erste Bank.

The interest rate of the subordinated liability raised by Erste Bank in the fiscal year is dependent on the 3-month Euribor rate.

The term "subordinated" is defined in Section 51 (9) BWG.

#### 4.24 Share capital

The share capital was comprised of the following:

	31/12/2008 €	31/12/2007 € '000
Ordinary shares		
Bearer shares	587,924,000.00	5,400

Subscribed capital at 31 December 2008 was € 587,924,000.00, represented by 587,924,000 voting bearer shares (ordinary shares). The increase by € 582,524,000.00 was the result of contributions of participating interests from Erste Group Bank AG.

#### 4.25 Own funds

Erste Bank applies the Basel II solvency rules. The advanced IRB (internal-rating-based) approach is used for the retail business; in the corporate business, for sovereigns and in interbank business, the basic approach based on the internal rating system is used. In addition, some asset categories will be valued under the standard assessment rate in accordance with statutory transition regulations.

<b>Assessment base pursuant to Section 22 (2) BWG</b>		
	unweighted	weighted
Assessment base as per standardised approach	15,010,857,366.30	2,334,523,309.21
Internal-ratings-based (IRB) approach	25,769,304,426.91	8,511,047,307.83
<b>Credit risk assessment base by exposure class at 31 December 2008 according to Basel II rules:</b>	<b>40,780,161,793.21</b>	<b>10,845,570,617.04</b>
<b>Minimum capital requirement pursuant to Section 22 (1) BWG</b>		
	<b>31/12/2008</b>	<b>31/12/2007</b>
1. Minimum capital requirement for credit risk pursuant to Section 22 a–h BWG	<b>867,645,649.36</b>	41
a) Standardised approach	<b>186,761,864.73</b>	0
b) Internal-ratings-based (IRB) approach	<b>680,883,784.63</b>	0
2. Settlement risk	<b>0.00</b>	0
3. Minimum capital requirement for position risk	<b>1,004,000.00</b>	0
4. Minimum capital requirement for operational risk	<b>32,525,868.30</b>	18
5. Minimum qualifying capital requirement due to adoption of Basel II rules	<b>0.00</b>	4,941
6. Minimum capital requirement for qualified non-financial investments	<b>0.00</b>	0
<b>Total minimum capital requirement</b>	<b>901,175,517.66</b>	5,000
<b>Own funds pursuant to Section 23 BWG</b>		
	<b>31/12/2008</b>	<b>31/12/2007</b>
Paid-up capital	<b>587,924,000.00</b>	5,400
Less: treasury shares	<b>0.00</b>	0
Disclosed reserves	<b>293,471,000.00</b>	74
Less: intangible assets	<b>-22,488,606.82</b>	0
<b>Core (Tier 1) capital pursuant to Section 23 (14) no. 1 BWG (prior to deductions)</b>	<b>858,906,393.18</b>	5,474
Supplementary qualifying (Tier 2) capital		
Supplementary capital	<b>0.00</b>	0
Revaluation reserve	<b>0.00</b>	0
Excess loan loss provision for IRB items	<b>21,665,408.79</b>	0
Subordinated capital	<b>400,000,000.00</b>	0
<b>Supplementary qualifying (Tier 2) capital before deductions</b>	<b>421,665,408.79</b>	0
Eligible short-term subordinated capital (Tier 3)	<b>0.00</b>	0
Rededication of own-fund components no longer eligible	<b>0.00</b>	0
<b>Eligible short-term subordinated (Tier 3) capital</b>	<b>0.00</b>	0
Deductions from core (Tier 1) capital pursuant to Section 23 (13) nos. 3 and 4 BWG	<b>-33,195,667.25</b>	0
Deductions from own funds pursuant to Section 23 (13) nos. 3 and 4 BWG	<b>-33,195,667.25</b>	0
Deductions from own funds pursuant to Section 23 (13) no. 4a BWG	<b>-47,056.80</b>	0
<b>Eligible capital pursuant to Section 23 BWG</b>	<b>1,214,133,410.67</b>	5,474
<b>Required own funds</b>	<b>901,175,517.66</b>	5,000
<b>Qualifying capital surplus</b>	<b>312,957,893.01</b>	474
<b>Coverage ratio</b>	<b>134.7%</b>	109.5%
<b>Solvency ratio (1), in relation to credit risk</b>	<b>10.9%</b>	1057.4%
<b>of which core (Tier 1) ratio (2), in relation to credit risk</b>	<b>7.6%</b>	1060.9%
(1) Total eligible capital pursuant to Section 23 BWG less risk requirements other than for capital risk (settlement risk, operational risk and position risk for trading book and foreign currencies) in relation to the assessment base for credit risk pursuant to Section 22 (2) BWG		
(2) Core (Tier 1) capital after deductions relative to the credit risk assessment base pursuant to Section 22 (2) BWG.		

#### 4.26 Assets pledged as collateral for liabilities

Treasury bills, mortgage-type loans and loans to public-sector borrowers of a total of € 2,654,353,504.64 (prior year: € 0 thousand) were transferred as collateral for the following liabilities of Erste Bank and Erste Group Bank AG, disclosed in the balance sheet and under the line as contingent liabilities:

	31/12/2008	31/12/2007
	€	€ '000
State ward funds	59,544,435.69	0
Mortgage and municipal bonds (issued by Erste Group Bank AG)	2,594,809,068.95	0

#### 4.27 State ward savings deposits

The balance sheet contains state ward savings deposits of € 58,142,794.02 (prior year: € 0 thousand).

#### 4.28 Forward agreements

The disclosures in accordance with Section 64 (1) no. 3 can be derived from item 4,10 "Derivative financial instruments".

#### 4.29 Contingent liabilities

The contingent liabilities disclosed under the line referred exclusively to liabilities from guarantees and warranties from the pledging of collateral. The contingent liabilities totalling € 5,844,151,690.36 included guarantees for savings banks, credit institutions, customers and employees of € 3,151,762,512.00; letters of credit of a volume of € 97,580,109.41; lastly, the pledging of collateral for external liabilities totalled € 2,594,809,068.95.

#### 4.30 Significant credit risk

The significant credit risk disclosed under the line mostly account for loan and guarantee commitments to customers that had not yet been exercised.

### 5 NOTES ON THE INCOME STATEMENT

#### 5.1 Income from securities and equity interests

Profits of group members (subsidiaries that are considered part of a tax group with Erste Bank under the group taxation regulations that came into force in 2005) disclosed in the income statement of Erste Bank under item "Income from participating interests and shares in affiliated undertakings" totalled € 52,229,558.49 in the reporting year.

#### 5.2 Income from administrative and agency services on behalf of third parties

The item "commission income" includes income from administrative and agency services on behalf of third parties of a total of € 52,616,462.97 (prior year: € 0 thousand).

#### 5.3 Other operating income

The item "Other operating income", for which a total of € 170,798.62 was disclosed, mainly included income from rent and asset sales.

#### **5.4 Expenses for subordinated liabilities**

Expenses for subordinated liabilities totalled € 8,837,522.40 (prior year: € 0 thousand)

#### **5.5 Expenses/income for severance payments and payments to severance-payment funds**

The item "expenses for severance payments and payments to severance-payment funds" included expenses for severance payments of € 15,915,143.87 (prior year: € 0 thousand).

#### **5.6 Extraordinary expenses**

Extraordinary expenses, amounting to € 332,067.59 (prior year: € 0 thousand) resulted from the reversal of the 1/10 prepaid expenses from the shortfall in the transfer to the pension fund of current employees' pension rights.

#### **5.7 Taxation of ordinary activities**

No taxes on income were payable in 2008.

#### **5.8 Allocation of reserves**

From the net profit of € 125,021,439.99 (prior year: € 6 thousand) an amount of € 30,651,432.30 (prior year: € - 4 thousand) was allocated to reserves in the balance sheet.

An allocation to the liability reserve in accordance with Section 23 (6) BWG was not required, however an allocation of € 600.00 was made for rounding purposes.

#### **5.9 Proposed distribution of profit**

The Management Board proposes the following profit distribution:

€ 0.16 dividend per share for 587,924,000 shares	€ 94,067,840.00
Amount carried forward	€ 302,167.69

## 6 INFORMATION ON BOARD MEMBERS AND EMPLOYEES

### 6.1 Number of employees

The average number of employees was 2.975 (prior year: 0), none of whom were workers.

Of these, 164 persons (prior year: 0) worked in other businesses in exchange for reimbursement of expenses. The reimbursed costs amounted to € 18,615,974.91 (prior year: € 0 thousand ) and have already been deducted from Income Statement item 8.

### 6.2 Loans to the Management Board and Supervisory Board

Existing loans to members of the Management Board were of a total of € 5,933.70 (prior year: € 0 thousand); guarantees totalled € 26,249.30 (prior year: € 0 thousand).

Loans and advances to members of the Supervisory Board totalled € 779,317.62 (prior year: € 0 thousand) and warranties of € 797,360.16 (prior year: € 0 thousand) were assumed.

The applicable interest rates and other terms (maturity dates and collateralisation) were in line with normal market practice.

Members of the Management Board made repayments for loans and advances of € 34,036.34 (prior year: € 0 thousand)

Members of the Supervisory Board made repayments for loans and advances of € 319,417.28 (prior year: € 0 thousand).

### 6.3 Expenses for severance payments and pensions

These expenses include payments to pension funds and employee welfare funds (excluding allocations to provisions) for acting Management Board members of a total of € 236,581.11 (prior year: € 0 thousand).

Pension payments for employees and their surviving dependants amounted to € 28,747,516.53 (prior year: € 0 thousand).

### 6.4 Board emoluments

Total emoluments for members of the Management Board, including emoluments from the former Erste Bank AG for 2008 amounted to € 3,532,899.76 (prior year: € 0 thousand). The emoluments of individual Management Board members were as follows:

Management Board member	Base salary	Performance bonus	Other compensations	Total
Elisabeth Bleyleben-Koren	709,007.01	1,127,124.00	166,083.10	2,002,214.11
Thomas Uher	508,762.11	240,589.00	50,584.16	799,935.27
Peter Bosek	458,762.07	222,100.00	49,888.31	730,750.38
	1,676,531.19	1,589,813.00	266,555.57	3,532,899.76

Total emoluments for members of the Supervisory Board totalled € 7,250.00 (attendance fees as of 9 August 2008, the legal date of acquisition of the Business Division Austria from Erste Group Bank AG).

## 6.5 Options and holdings of / transactions involving Erste Group Bank shares

The number and breakdown of the total granted and exercised options on Erste Group Bank AG shares registered to employees and managers, as well as named board members, is as follows:

The breakdown of the MSOP 2002 options granted and exercised by eligible persons is as follows:

	granted	Exercised in 2008	exercised	not yet exercised
Management Board				
Elisabeth Bleyleben-Koren	12,000	0	12,000	0
Peter Bosek	3,000	1,000	2,000	1,000
Total received by Management Board members	15,000	1,000	14,000	1,000
Managers (excl. Management Board)	96,000	0	94,500	500
Employees	79,300	0	75,063	2,127
Total options	190,300	1,000	183,563	3,627

Of the options granted under MSOP 2002, 1,000 of those vested to managers and 2,110 of those vested to employees had lapsed by 31 December 2008.

The breakdown of the MSOP 2005 options granted, vested and exercised are distributed as follows:

	granted	Exercised in 2008	exercised	not yet exercised
Management Board				
Elisabeth Bleyleben-Koren	9,000	0	3,000	6,000
Thomas Uher	3,000	0	0	3,000
Peter Bosek	5,000	0	0	5,000
Total received by Management Board members	17,000	0	3,000	14,000
Managers (excl. Management Board)	84,500	0	20,200	64,300
Employees	224,675	0	38,788	185,887
Total options	326,175	0	61,988	264,187



The conditions of the employee share ownership programme and management share option programme are as follows:

#### MSOP 2002

each of the options, which are granted free of charge, entitles the holder to subscribe to four shares; the transfer of options inter vivos is not permitted. The options granted in 2002 vest in three tranches, at which time they are credited to recipients' accounts: for the Management Board and other eligible managers, on 24 April 2002, 1 April 2003 and 1 April 2004; for other key personnel, on 1 June 2002, 1 June 2003 and 1 June 2004. The exercise price for all three tranches was fixed at the average market price of Erste Bank shares quoted in March 2002 (rounded down to the nearest half euro), which was € 66.00 per share. After the stock split performed in July 2004, the exercise price remains unchanged at € 66.00. This means that each option confers the right to purchase four shares of Erste Group Bank AG for a total of € 66.00, corresponding to a purchase price of € 16.50 per share. The option term 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, declarations to exercise may be submitted beginning on the day after publication of the preliminary consolidated net profit for the most recent financial year completed, 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

#### MSOP 2005

each of the options, which are granted free of charge, entitles the holder to subscribe to one share; the transfer of options inter vivos is not permitted. The 2005 options were vested on the following dates: for the Management Board and other eligible managers, 1 June 2005; for key personnel, options were vested in three tranches, on 1 September 2005, 1 September 2006 and 31 August 2007. For options 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 fixed 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 € 43.00 per share. The option term begins when the options are credited to the option account (i.e. vesting) and ends on the value date of the last exercise window of the fifth calendar year after the year in which the option was vested. Every year, notices of intention to exercise may be submitted within 14 days of 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.

Information on Erste Group Bank shares held by Management Board and Supervisory Board members (number of shares):

	as at 31/12/2007	additions 2008	disposals 2008	as at 31/12/2008
Management Board member				
Elisabeth Bleyleben-Koren	22,800	0	0	22,800
Thomas Uher	1,400	2,000	0	3,400
Peter Bosek	1,572	4,000	0	5,572

The breakdown of Supervisory Board members' holdings of Erste Group Bank shares at the balance sheet date of 31 December 2008 was as follows:

Supervisory Board member	as at 31/12/2008
Andreas Treichl	184,640
Manfred Wimmer	13,132
Bernhard Spalt	6,376
Günter Benischek	1,527
Friedrich Rödler	849
Erika Hegmala	150
Ilse Fetik	126

## 6.6 List of board members

The following persons were members of the Management Board:

Elisabeth Bleyleben-Koren, CEO (Chairwoman of the Board), since 29 February 2008

Wolfgang Schopf (Chairman of the Board), until 29 February 2008

Thomas Uher (Deputy Chairman of the Board), since 29 February 2008

Reinhard Karl (Deputy Chairman of the Board), until 29 February 2008

Peter Bosek (Member of the Board), since 29 February 2008

The following persons were members of the Supervisory Board:

Andreas Treichl, CEO (Chairman of the Board)

Heinz Kessler (Deputy Chairman of the Board)

Johannes Kinsky, until 29 June 2008

Peter Kisbenedek, until 11 June 2008

Friedrich Rödler, since 11 June 2008

Bernhard Spalt, since 11 June 2008

Manfred Wimmer, since 11 June 2008

Representatives of the Employees' Council:

Günter Benischek, since 11 August 2008

Erika Hegmala, since 11 August 2008

Ilse Fetik, since 11 August 2008

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

Heading	Acquisition costs as at 1/1/2008 €	Additions 2008 €	Disposals 2008 €	Transfers 2008 €	Acquisition costs as at 31/12/2008 €	Write-ups 2008 €	Accumulated depreciation €	Carrying amount as at 31/12/2008 €	Carrying amount as at 31/12/2007 €	Depreciation 2008 €
<b>Securities</b>										
a) Treasury bills	0,00	1.386.457.398,25	306.568.500,00	0,00	1.079.888.898,25	3.061.562,64	7.520.473,76	1.075.429.987,13	0,00	11.302.673,45
b) Loans and advances to credit institutions	0,00	125.000.000,00	0,00	0,00	125.000.000,00	0,00	0,00	125.000.000,00	0,00	0,00
c) Loans and advances to customers	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
d) Debt securities	0,00	827.915.970,00	149.115,00	0,00	827.766.855,00	1.301.927,16	16.949.136,23	812.119.645,93	0,00	16.997.542,73
e) Shares	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
<b>Total</b>	<b>0,00</b>	<b>2.339.373.368,25</b>	<b>306.717.615,00</b>	<b>0,00</b>	<b>2.032.655.753,25</b>	<b>4.363.489,80</b>	<b>24.469.609,99</b>	<b>2.012.549.633,06</b>	<b>0,00</b>	<b>28.300.216,18</b>
<b>Participating interests</b>	<b>7,27</b>	<b>462.463.036,11</b>	<b>290.309,44</b>	<b>-24.260.327,94</b>	<b>437.912.406,00</b>	<b>5.375.000,00</b>	<b>800.233,71</b>	<b>442.487.172,29</b>	<b>7,27</b>	<b>800.233,71</b>
<b>Shares in affiliated undertakings</b>	<b>0,00</b>	<b>726.323.419,17</b>	<b>2.563.577,00</b>	<b>24.260.327,94</b>	<b>748.020.170,11</b>	<b>5.050.761,97</b>	<b>4.836.336,42</b>	<b>748.234.595,66</b>	<b>0,00</b>	<b>4.836.336,42</b>
<b>Intangible assets</b>										
a) Corporate, merger premium	0,00	1.802.121,00	0,00	0,00	1.802.121,00	0,00	408.642,00	1.393.479,00	0,00	408.642,00
b) Other	0,00	32.540.526,46	0,00	0,00	32.540.526,46	0,00	11.445.398,64	21.095.127,82	0,00	11.445.398,64
<b>Total</b>	<b>0,00</b>	<b>34.342.647,46</b>	<b>0,00</b>	<b>0,00</b>	<b>34.342.647,46</b>	<b>0,00</b>	<b>11.854.040,64</b>	<b>22.488.606,82</b>	<b>0,00</b>	<b>11.854.040,64</b>
<b>Tangible assets</b>										
a) Land and buildings	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
b) Office furniture and equipment	0,00	34.717.594,60	2.462.187,64	0,00	32.255.406,96	0,00	6.295.636,55	25.959.770,41	0,00	6.295.636,55
c) Leased assets	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
<b>Total</b>	<b>0,00</b>	<b>34.717.594,60</b>	<b>2.462.187,64</b>	<b>0,00</b>	<b>32.255.406,96</b>	<b>0,00</b>	<b>6.295.636,55</b>	<b>25.959.770,41</b>	<b>0,00</b>	<b>6.295.636,55</b>
<b>Total fixed assets</b>	<b>7,27</b>	<b>3.597.220.065,59</b>	<b>312.033.689,08</b>	<b>0,00</b>	<b>3.285.186.383,78</b>	<b>14.789.251,77</b>	<b>48.255.857,31</b>	<b>3.251.719.778,24</b>	<b>7,27</b>	<b>52.086.463,50</b>

\*) offset against accumulated depreciation from previous years

## Companies owned by Erste Bank at 31 December 2008

Equity and earnings data shown was generally calculated in accordance with the financial statements and consolidated financial statements established using the same IFRS measurement methods throughout the entire group. Dividends received in the same year are deducted from equity capital.

The net profit shown represents net profit/loss after tax (but before allocations to reserves).

Company name, domicile	Interest (%)	Shareholders' equity (EUR)	Net income (EUR)	Balance sheet date
<b>1.) Credit institutions</b>				
Allgemeine Sparkasse Oberösterreich Bankaktiengesellschaft, Linz (Group)	26,93	407.919.000,00	39.658.000,00	31.12.2008
Bausparkasse der österreichischen Sparkassen Aktiengesellschaft, Vienna	95,00	140.886.000,00	30.717.000,00	31.12.2008
ERSTE-SPARINVEST Kapitalanlagegesellschaft m.b.H., Vienna	44,00	26.065.872,00	18.570.000,00	31.12.2008
Intermarket Bank AG, Vienna (Group)	25,22	34.722.986,00	5.600.556,60	31.12.2007
Kärntner Sparkasse Aktiengesellschaft, Klagenfurt (Group)	25,00	252.907.000,00	11.886.000,00	31.12.2008
NÖ Beteiligungsfinanzierungen GmbH, Vienna	30,00	3.044.921,17	13.814,19	31.12.2007
NÖ Bürgschaften GmbH, Vienna	25,00	7.669.136,80	1.068,04	31.12.2007
s Wohnbaubank AG, Vienna (Group)	90,87	33.977.270,00	4.540.000,00	31.12.2008
Salzburger Sparkasse Bank Aktiengesellschaft, Salzburg	98,69	186.375.557,00	15.428.000,00	31.12.2008
Sparkasse Hainburg-Bruck-Neusiedl Aktiengesellschaft, Hainburg	75,03	32.655.012,00	1.586.000,00	31.12.2008
Sparkasse Kremstal-Pyhrn Aktiengesellschaft, Kirchdorf	30,00	34.508.000,00	- 266.000,00	31.12.2008
Sparkasse Mühlviertel-West Bank Aktiengesellschaft, Rohrbach	40,00	43.586.000,00	4.403.000,00	31.12.2008
Steiermärkische Bank und Sparkassen Aktiengesellschaft, Graz (Group)	25,00	806.801.000,00	102.488.000,00	31.12.2008
Tiroler Sparkasse Bankaktiengesellschaft Innsbruck, Innsbruck (Group)	74,99	159.766.000,00	- 10.773.000,00	31.12.2008
Weinviertel Sparkasse AG, Hollabrunn	49,40	10.350.000,00	- 10.859.000,00	31.12.2008
<b>2.) Financial institutions</b>				
EBV - Leasing Gesellschaft m.b.H. & Co. KG., Vienna (Group)	100,00	11.814.000,00	- 2.465.000,00	31.12.2008
EFH-Beteiligungsgesellschaft m.b.H., Vienna	50,00	19.524,72	- 2.332,10	31.12.2007
Neue Eisenstädter gemeinnützige Bau-, Wohn- und Siedlungsgesellschaft m.b.H., Eisenstadt	49,98	7.866.336,89	719.405,01	31.12.2007
Österreichisches Volkswohnungswerk, Gemeinnützige Gesellschaft mit beschränkter Haftung, Vienna	100,00	45.496.389,00	4.032.444,02	31.12.2007
s Autoleasing GmbH, Vienna	100,00	130.000,00	88.000,00	31.12.2008
<b>3.) Others</b>				
ASC Logistik GmbH, Vienna	23,95	15.755.428,39	2.517,63	31.12.2007
CSSC Customer Sales Service Center GmbH, Vienna	57,05	35.000,00	-	31.12.2008
EBB Beteiligungen GmbH, Vienna	100,00	102.228,78	- 9.819,94	31.12.2007
EB-Beteiligungsservice GmbH, Vienna	99,86	39.018,00	10.000,00	31.12.2008
EB-Restaurantsbetriebe Ges.m.b.H., Vienna	100,00	48.000,00	12.000,00	31.12.2008
E-C-A-Holding Gesellschaft m.b.H., Vienna	65,54	8.578.479,00	4.198.174,49	30.04.2008
ESPA- Financial Advisors GmbH, Vienna	45,91	2.422.462,00	2.122.461,91	31.12.2007
Finanzpartner GmbH, Vienna	50,00	785.000,00	360.694,00	31.12.2008
Haftungsverbund GmbH, Vienna	63,77	506.000,00	- 11.000,00	31.12.2008
HEBRA Holding GmbH, Vienna	100,00	28.000,00	16.879.000,00	31.12.2008
LTB Beteiligungs GmbH, Vienna	25,00	4.326.231,00	2.167.156,96	30.11.2008
RSV Beteiligungs GmbH, Vienna	33,33	2.629.909,00	2.098.336,37	31.10.2008
s Immobilienfinanzierungsberatung GmbH, Vienna	85,12	- 4.646.000,00	55.000,00	31.12.2008
s REAL Immobilienvermittlung GmbH, Vienna (Group)	96,14	2.498.000,00	755.000,00	31.12.2008
S Tourismus Services GmbH, Vienna	100,00	4.116.000,00	211.000,00	31.12.2008
Sparkassen IT Holding AG, Vienna	28,87	4.189.189,00	295.409,03	31.12.2007
Sparkassen Zahlungsverkehrabwicklungs GmbH, Linz	57,32	385.000,00	64.000,00	31.12.2008
Sparkassenbeteiligungs und Service AG für Oberösterreich und Salzburg, Linz	69,25	18.527.694,00	561.872,00	31.12.2008
S-Tourismusfonds Management Aktiengesellschaft, Vienna	83,19	48.776.000,00	1.952.000,00	31.12.2008
UBG-Unternehmensbeteiligungs-gesellschaft m.b.H., Vienna	100,00	637.929,39	11.164,44	31.12.2007
VBV - Betriebliche Altersvorsorge AG, Vienna (Sub-Group)	26,15	42.133.180,12	3.633.997,07	31.12.2007
VMG-Erste Bank Versicherungsmakler GmbH	100,00	220.534,50	872.000,00	31.12.2008

**Financial Statements 2008**

**Erste Bank der oesterreichischen Sparkassen AG**

Vienna, 9 March 2009

**Management Board**

**Elisabeth Bleyleben-Koren**  
Chairwoman

**Thomas Uher**  
Deputy Chairman

**Peter Bosek**  
Member of the Management Board

### Auditor's Report

The report on the financial statements as at 31 December 2008 has been completed with the following unqualified audit certificate in accordance with section 274 of the Austrian Commercial Code.

We have audited the financial statements, including the accounting records, of Erste Bank der oesterreichischen Sparkassen AG for the fiscal year 2008. Pursuant to Austrian corporate law, the supplementary provisions under Austrian banking law and the Articles of Association, the accounting, preparation and content of these financial statements, as well as the management report, are the responsibility of the management of the Erste Bank der oesterreichischen Sparkassen AG. Our responsibility is to express an opinion on these financial statements based on our audit and to state whether the company management report is in accordance with the annual financial statements.

We conducted our audit in accordance with the laws and regulations applicable in Austria and the Austrian Standards on Auditing. These standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement and whether we can state that the management report is consistent with the financial statements. When selecting the audit procedures, we considered our knowledge of the business activity, the economic and legal environment of the Erste Bank der oesterreichischen Sparkassen AG and expectations about potential errors. An audit involves procedures to obtain evidence about amounts and disclosures in the accounting records and in the financial statements predominantly on a sample basis. An audit also includes evaluating the accounting principles used and the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonably sound basis for our audit opinion.

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

Vienna, 9 March 2009

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

Friedrich O. Hief  
Certified Public Accountant

Erich Kandler  
Certified Public Accountant

Ernst & Young Wirtschaftsprüfungsges m b.H.

Helmut Maukner  
Certified Public Accountant

Elisabeth Glaser  
Certified Public Accountant

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

## **MANAGEMENT REPORT of Erste Bank der oesterreichischen Sparkassen AG (hereinafter “Erste Bank”) 2008**

**General notes:** In August 2008, the Austrian customer business division of the former Erste Bank der oesterreichischen Sparkassen AG was de-merged and transferred to the bank’s wholly-owned subsidiary Dritte Wiener Vereins-Sparcasse AG. The latter subsequently changed its company name to “Erste Bank der oesterreichischen Sparkassen AG”, while the parent company changed its name to “Erste Group Bank AG” (hereinafter “Erste Holding” or “Erste Group”).

Due to the fact that the end-of-year results in the official balance sheet and income statement of the new Erste Bank for 2007 still include the figures of the receiving entity “Dritte Wiener Vereins-Sparcasse”, they cannot be readily compared with the end-of-year results for 2008 – which now include the transferred Business Division Austria. For this reason, **pro forma figures** are used for 2007 in this management report. These figures are based on the separately imputed figures for the “Business Division Austria”, which have been recorded since 2007, and can be compared against the end-of-year results for 2008.

In this company management report, all explanations, rates of change and quoted figures from the previous year’s results refer to these pro forma figures, which have not been audited.

A comparison between summaries of the balance sheets and income statement with pro forma figures for 2007 and the actual figures for 2008 can be found in the notes to this company management report.

### **Summary Financial Review of Erste Bank for the year ended 31 December 2008**

**Economic environment:** In fiscal year 2008, the growth rate of the Austrian economy slowed significantly compared to the high-growth years of 2006 and 2007. This was due to the international financial market crisis and higher raw material prices. This negative performance was exacerbated in Q4 of the fiscal year 2008. The international market climate was one of the main reasons for the economic downturn in Austria. According to a preliminary WIFO calculation, Austrian GDP rose by 1.8 percent, with significantly slower investment activity. Exports were also less dynamic. Domestic demand fell below the long-term average. Unemployment in 2008 was at an average of 5.8 percent. The inflation rate was 3.2 percent.

The trough of economic growth (at -0.5 percent) is forecast for fiscal year 2009, before the expected rebound in 2010, when growth is expected to be 0.9 percent.

The ECB successively lowered its key interest rate to 2.5 percent in 2008. While personal bankruptcies increased by 16.5 percent, the number of company insolvencies remained unchanged at approximately 6,300 cases.

Insolvency liabilities were up 16.7 percent and 1.2 percent for companies and private persons respectively.

The industry-specific business trend was as follows: despite the difficult climate Austrian banks were able to contain the decline of non-consolidated net operating income at 5 percent during the first three quarters in 2008.

The fourth quarter saw a more pronounced drop, and considerable valuation losses were recorded for securities investments due to the worsening financial and economic crisis and the price slump on the main stock exchanges.

One of the results of the financial crisis was that the deposit guarantee laws were amended and limits on state guarantees for certain types of investments were either increased or alternatively lifted entirely and made subject to time-limits.

**Operating income** of Erste Bank grew by 1.4 percent from € 641.0 million in the previous year to € 650.3. Net interest income and income from securities and equity interests increased markedly by 7.7 percent, while net commission income declined by 10.7 percent.

**Operating expenses** grew by 1.5 percent to € 430.1 million.

**Operating income** (operating income less operating expenses) grew slightly by 1.4 percent from € 217.1 million to € 220.2 million.

The **cost-income ratio** (operating expenses as a percentage of operating income) was 66.1 percent just as in the previous year.

Taking into account the charges to and releases from impairment adjustments for receivables, securities and participating interests (with the need for risk provisions being below and the need for value adjustments substantially higher above that of the previous year as a consequence of the financial crisis), **pre-tax profit for the year** was € 125.6 million, or 3.5 percent above the previous year's figure. In relation to the average number of 2,975 employees at Erste Bank (see details in the notes), then employee productivity had a value of approx. € 42 thousand (adapted pro forma value for prior year: € 43 thousand).

Net income after **extraordinary results and taxes**, but before movement in reserves, was € 125.0 million, up 3.3 percent on the previous year.

**Return on equity** (ROE, net profit for the year expressed in proportion to average equity capital, which consists of share capital, reserves less treasury shares and profit available for distribution) was 12.9 percent.

In 2008, the 143 branches of Erste Bank together generated a business volume (**balance sheet total**) of € 28.8 billion, up by 19.1 percent on the previous year (€ 24.2 billion). In so doing, **loans and advances to customers** rose by 10.2 percent from € 16.4 billion to € 18.1 billion, **amounts owed to customers** increased by 11.5 percent from € 14.1 billion to € 15.7 billion. This resulted in a loan-to-deposit ratio of 115 percent as per 31 December 2008 (prior year 116 percent).

The **core (Tier 1) capital** of Erste Bank, pursuant to Section 23 (14) no. 1 BWG, on 31 December 2008 totalled € 859 million, or € 826 million after deductions pursuant to Section 23 (13) nos. 3 and 4 BWG.

The **core (Tier 1) ratio** of Erste Bank expressed in proportion to credit risk – regulatory core (Tier 1) capital pursuant to BWG after deductions, expressed as a percentage of the riskweighted assets pursuant to Section 22 (2) BWG – totalled 7.6 percent at 31 December 2008.



The **qualifying capital** of Erste Bank, pursuant to Section 23 BWG, including non-credit-risk-related risk requirements (in particular operational risk and position risk for securities and foreign exchange) amounted to € 1,214 million at 31 December 2008.

The legal minimum requirement was approx. € 901 million at the balance sheet date, resulting in a coverage ratio of approx. 135 percent.

The **solvency ratio**, in relation to credit risk (own funds less risk requirements other than for credit risk, in particular operational risks and position risk for securities and foreign currency, expressed as a percentage of risk-weighted assets pursuant to Section 22 (2) BWG) totalled 10.9 percent at 31 December 2008. This is markedly higher than the 8 percent minimum requirement pursuant to Section 22 (1) BWG.

On the basis of the approval notified on 26 August 2008 by the Austrian Financial Market Authority, **Erste Bank** applies the **Basel II** solvency rules as follows: the advanced IRB (internal-rating-based) approach is used for the retail business; in the corporate business, for sovereigns and in interbank business, the basic approach based on the internal rating system is used. In addition, some asset classes will be valued under the standard assessment rate in accordance with statutory transition regulations.

### **Details on earnings**

**Net interest income** rose significantly by 17.6 percent to € 372.0 million (prior year: € 316.4 million).

This is mainly the result of pronounced volume increases in the customer business (on both the assets and liabilities side) and improving margins.

Net interest income also includes the changes in provisions for interest receivables as well as the pro-rata write-ups and write-downs of long-term securities purchased above or below their redemption value.

**Income from securities and equity interests** showed a marked decrease by 28 percent to € 62.7 million. This is attributable to lower income from investments – especially from credit institutions, which have had to endure significant markdowns on securities investments as a result of the financial crisis.

In addition, the previous year's result included a special dividend payment in the tourism segment resulting from the sale of a hotel.

Total **interest income**, calculated as the sum total of net interest income and income from securities and equity interests was 7.7 percent higher rising from € 403.5 million to € 434.7 million.

**Net commission income** decreased by 10.7 percent from € 226.1 million in the previous year to € 201.9 million.

This is mainly the result of the business trend in securities trading, which showed a significant decline due to the international financial crisis.

**Netprofit on trading activities** rose by 23.9 percent to € 13.6 million. Considering the absolute figure, this income is of minor importance for Erste Bank. This income was generated mainly from foreign exchange transactions.

**Personnel expenses**, included in operating expenses, increased by 4.1 percent from € 249.6 million in the previous year to € 259.9 million. This was mainly the result of rising wages and an increase in the number of employees. In 2008 the number of employees rose from 3,018 at the end of 2007 (of which 150 were on unpaid leave) to 3,089 at 31 December 2008 (of which 138 were on unpaid leave).

**Other administrative** expenses showed only a moderate increase of 2.7 percent, rising from € 145.8 million to € 149.7 million, so that the increase was below the rate of inflation.

**Depreciation and amortisation on tangible fixed assets** (asset items 9 and 10) saw a marked reduction of 33.6 percent to € 18.2 million. This is a result of the restrictive investment policy – particularly for software development – of the last three years.

The net allocation to **risk provisions** for receivables (including receivables write-offs offset against income from written-off receivables) was significantly lower in 2008 than in the previous year.

**Current asset securities'** valuation and price earnings, as well as the income and value adjustment positions on **participating interests** and **fixed-asset securities** fell strongly in 2008 due to significant markdowns on securities resulting from the financial crisis.

**Pre-tax profit** for the year rose moderately by 3.5 percent year-on-year from € 121.3 million to € 125.6 million.

**Tax situation:** In accordance with tax laws on group taxation, Erste Bank and its main subsidiaries are considered a tax group.

Due to the high proportion of tax-exempt income – particularly income from participating interests – and loss carry-forwards from previous years, Erste Bank did not have to pay any Austrian corporate income tax in fiscal year 2008. At 31 December 2008, there still remained a considerable tax loss carried forward from previous years in Erste Bank, which was carried forward once again.

Profit for the year after net **extraordinary income** of € -0.3 million, **other taxes** totalling € 0.3 million and **movements in reserve** which resulted in a net allocation of € 30.6 million was € 94.4 million.

At the Annual General Shareholders' Meeting, the Management Board will propose a **dividend** payout of € 0.16 per share from the **profit available for distribution**, i.e. € 94.1 million.

## **Explanatory notes on the balance sheet**

The **balance sheet total** of Erste Bank rose by 19.1 percent from € 24.2 billion in the previous year to € 28.8 billion in 2008.

**Loans and advances to customers** grew by 10.2 percent from € 16.4 billion to € 18.1 billion. At € 3.6 billion, foreign currency loans accounted for approximately 20 percent of the total.

Total **securities investments** (treasury bills as well as fixed-interest and variable-yield securities) declined strongly (-21.5 percent to € 2.7 billion).

The carrying value of **equity interests and shares in group companies** increased only slightly (+4.6 percent to € 1.2 billion).

The sharp increase in other assets, from € 0.4 billion to € 1.9 billion, was largely due to reported securities lending transactions of € 1.6 billion at the end of 2008 – which were also reflected in the balance sheet item other liabilities.

The interbank business also grew rapidly. **Loans and advances to credit institutions**, which also include the legally required liquidity reserve of € 1.9 billion at Erste Group, grew from € 2.5 billion to € 4.7 billion, an increase of 87.3 percent. Erste Group accounts for approx. 76 percent of receivables.

On the liabilities side, **amounts owed to credit institutions** also showed a strong increase, growing by 15.5 percent from € 8.4 billion to € 9.7 billion. Erste Group refinancing loans accounted for approx. 64 percent of this figure.

**Amounts owed to customers** grew 11.5 percent from € 14.1 billion to 15.7 billion. Savings deposits increased by 17.4 percent to € 9.4 billion.

**Subordinated liabilities** solely concern subordinated capital provided by Erste Group as initial capital endowment.

Total **equity capital** (subscribed capital, reserves and reported profit), including the allocation to reserves made in 2008, was € 976 million at 31 December 2008.

## **Savings Banks Haftungsverbund (cross guarantee system)**

Erste Bank AG is a member of the **Haftungsverbund cross-guarantee system of the Savings Bank Group**. In addition to Erste Group Bank AG, nearly all of Austria's savings banks belong to this system.

According to the provisions of the agreement in principle, which was concluded between Erste Bank Group Bank AG and the member savings banks, the partners must reimburse solidarily all amounts owed to customers (all deposits pursuant to Section 1 (1) no. 1 BWG, all receivables accruing from credit balances from the banking business, all receivables accruing from the issue of securities, with the exception of receivables from qualifying capital items in accordance with Section 23 BWG and receivables from criminal transactions).

In accordance with the requirements of the BWG and in consideration of general maximum limits, individual members of the Haftungsverbund may need to provide assistance to other members (such as giving liquidity assistance, giving loans or guarantees and providing equity capital), and in the case of Section 93 (3) no. 1 BWG, to service the guaranteed customers deposits of a member of the Haftungsverbund. The scope of the individual services to be provided by individual members of the Haftungsverbund where needed cannot therefore be determined beforehand. Any contributions made by the members of the Haftungsverbund under the statutory deposit guarantee system pursuant to Section 93 ff BWG are taken into account.

The guarantee obligation is entered in the balance sheet as a memorandum item carrying the notional amount of € 1.00, as it is impossible to determine the potential liability of Sparkassen AG within the Haftungsverbund.

Since the amendment to the BWG, which came into effect on 1 September 2002, the members of the Haftungsverbund have been considered a group of credit institutions as defined in Section 30 BWG, with Erste Group Bank AG acting as the top-tier credit institution.

This makes it necessary for Erste Group Bank to consolidate the qualifying capital (in acc. with Section 24 BWG) and the risk-weighted assets (in acc. with Section 22 BWG) of the members of the Haftungsverbund.

For the purpose of inclusion into the consolidated financial statements of the Haftungsverbund, an International Financial Reporting Standards (IFRS) reporting package is transmitted to Erste Group Bank AG. In 2007, collaboration between the savings banks was further strengthened by way of a supplementary agreement.

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

The economic climate in Austria at the beginning of 2009 can be characterised as tense, as a result of the worldwide financial crunch triggered by the US sub-prime mortgage crisis.

Growth forecasts in various countries have been revised downwards, and Austria is no exception. 2009 is expected to be a recession year, and positive growth of 0.9 percent is not expected until 2010. The forecast economic slump is expected to lead to a marked reduction in exports and investments. The savings ratio is expected to rise.

In the coming years, securing and extending Erste Bank's market position will continue to be a key objective. Cost management and process optimisation, in particular, will continue to be key tasks when it comes to improving the company's competitive position.

Erste Bank expects the operative results to show a steady development in 2009.

Due to the deteriorating economic environment, it is more likely that higher risk provisions will be needed for 2009.

On the other hand, the high amortisation requirement for the security portfolio should be significantly lower than in 2008.

## **Explanations on the risk profile of Erste Bank and its risk management objectives and methods**

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

1. **Market risk**: this risk concerns currency exchange risks relating to changes in value due to exchange rate fluctuations, interest-related risks due to interest rate fluctuations, which can in particular result in fluctuations of future cash flows, as well as price risks due to changes in market prices.
2. **Credit risk**: this is caused by the fact that the business partner may not be able to perform his contractual duties and the bank may incur losses as a result.
3. **Liquidity risk**: this is the risk that the bank may not have enough liquid funds to meet its own obligations.
4. **Operational risk**: this describes the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events.

## **Risk management objectives and methods**

Knowingly and selectively accepting risks and managing them professionally are core functions of every bank. Erste Bank's approach to risk management seeks to find the optimum balance between risks and returns in order to earn an adequate high return on equity. The risk management strategy of Erste Bank is marked by a conservative approach to risks facing a bank that is driven both by the requirements of customer-centred banking and by the legal environment.

### **The risk management structure:**

Based on statutory provisions (especially the Austrian Banking Act), the central responsibility for risk management lies with the **Group Management Board**.

The office of the **Chief Risk Officer (CRO)** was introduced at Management Board level to ensure effective management of risks.

The CRO heads the units "Credit Restructuring" and "Risk Management Austria" (which assists in the implementation of the risk management strategy and credit risk strategy, as well as assisting the harmonisation effort for the risk management applications within the various business units).

These units are responsible for the development, implementation and supervision of limits, risk reporting, the risk management strategy, the related standards and processes, as well as ICAAP-compliant procedures for the measurement of the equity base.

The separation of initial lending decision and second lending appraisal is ensured all the way up to the Management Board level (local CRO), whose responsibility covers all risks pertaining to the relevant risk-taking unit.

The Operative Risk Management unit is responsible for managing the risk process and carrying out the final evaluation of risk levels within the framework and methods defined by Erste Bank Group's Strategic Risk Management unit.

**Identification and management of risks:**

The risk management process at Erste Bank consists of five stages: risk identification, risk assessment, risk aggregation, risk mitigation and risk reporting.

The credit positions are rated according to an IRB-compatible risk class system used at Erste Bank Group.

A standard risk cost model that uses internal default and transitory probabilities is implemented in Erste Bank's marginal costing method.

Credit risk, by far the most important risk category, is determined on the basis of risk-weighted assets.

In individual cases, reserves are created in the balance sheet, taking into account the securities and creditworthiness of borrowers; for private customers and small commercial customers, calculations are made on a lump-sum basis. Sufficient reserves to cover the associated risk level exist for uncollateralized shares.

Portfolio reserves are taken in addition to the individual reserves.

Foreign currency risks are of a reasonable scope and mitigated as best possible by means of currency-conform refinancing facilities or the use of hedging instruments.

Since August 2007, all main markets have been facing a liquidity crisis triggered by problems associated with the US sub-prime mortgage market. The crisis deepened in 2008 in connection with the bank bankruptcies.

Erste Bank is a member of the liquidity pool of the Savings Bank Group, which ensures that the bank currently has sufficient liquidity at its disposal.

## **Corporate Social Responsibility**

### **Introduction**

To Erste Bank, Corporate Social Responsibility is much more than just a passing fad or a dreary chore: CSR has always been a part of who we are and is at the heart of all our activities. This attitude has a long tradition: when the first savings banks were established, they already considered themselves an institution whose objective was to work for the common good. Today, Erste Bank carries on the tradition by letting its CSR programme grow in line with the company.

CSR is part of Erste Bank's company philosophy, and we are committed to adding value – and maintaining that value – by sustainable means. This objective can only be achieved if two criteria are met: first, we must consider the risks and opportunities presented by the economic, ecological and social challenges; second, we must involve all affected parts of the population, be they customers, employees, investors or civil society.

Our achieving second place in the official 2008 Austrian CSR Rankings, in which the efforts of the 100 largest Austrian companies to improve the sustainability of their activities is rated, proves that we are on the right track.

### **Customers**

The “customer parliament”, created in 2008, is a new discussion platform for the Austrian retail customer division. The delicate issue of changing account managers has been touched upon through this platform. The frank discussion confirmed the importance of the relationship manager and has prompted plans by Erste Bank to study and optimise the procedure involved when changing account managers.

Due to the changed requirements and our aim to achieve market leadership, an annual customer satisfaction survey, “Qualität NEU”, will be conducted once every year starting in 2009. This survey will continually collect customer feedback all year round.

The complaints-and-suggestions offices that have now been set up in all countries of Erste Bank Group will serve as a first point of contact for customer suggestions and complaints, extensively improving service quality in the process. Customers thus have someone to approach directly with their needs and concerns.

April 2008 saw the launch of Erste Bank' first activities for migrants. In a pilot operation, three Vienna branches actively offered Serbian- and Croatian-language advice and product information. Reasonably-priced payment transfers to foreign countries, demand for which was identified in a market study, were also offered. Starting in early 2009 further branches are planned to offer the advisory service for migrants.

Erste Bank is also keen to acquaint youngsters with sustainable issues. As part of the spark7 youth club, the bank acts as a dependable partner for youngsters aged 14 to 19 in all financial, educational and leisure matters. The focus is primarily on how to manage money properly, as well as offering support for personal and professional development.

As part of the partnership with the Austrian Economic Chamber, young entrepreneurs received support for their start-up activities. In the jointly organised i2b & GO! competition

266 business plans were handed in and the future entrepreneurs were supported with free-of-charge expert feedback. Advice and further education programmes as part of the GO! Gründer Offensive completed the programme.

Further sustainable investments were added to the range of investment fund products on offer. In June 2008, Erste Group introduced the ESPA VINIS STOCK EUROPE EMERGING – the first sustainable equity fund for Eastern Europe. This equity fund invests in approximately 50 companies in Central and Eastern Europe who conduct their business in accordance with social and environmental considerations.

This is already the seventh ESPA VINIS equity fund of the sustainable investments category, of which two were established in co-operation with the WWF. The equity fund is backed by ERSTE-SPARINVEST, a fund management company owned by Erste Group and Savings Banks, and VINIS, a subsidiary of VBV-Pensionskasse AG.

Stocks undergo a rigorous vetting procedure, carried out by specialists, before being included into these equity funds. The criteria are, amongst others, environmental pollution, the renouncement of nuclear energy or child labour.

By offering the ESPA VINIS STOCK EUROPE EMERGING equity fund, Erste Group has successfully defended and strengthened its leadership in sustainable investments.

## **Civil society**

For nearly 190 years, helping people in need has been one of Erste Bank's biggest concerns. The "Erste oesterreichische Sparcasse" was founded in 1819 to provide basic financial services to people who until then had had no access to such services, thereby giving them a chance to save money for the future. Thus, Erste Bank was literally committed to social responsibility from day one. The idea behind the "Zweite Wiener Vereins-Sparcasse", which reached the tender age of two in autumn 2008, runs in a similar vein. It allows persons who, for various reasons, are no longer eligible for a regular bank account, to gain access to basic financial services, giving these persons a bank account without overdraft facility gives them a chance to find their way back into an ordered life. Zweite Sparcasse has opened 4,300 accounts since its founding and is run by more than 400 volunteers from among the employees of Erste Bank in cooperation with debt advisers and experts from the Caritas charity. Zweite Sparcasse has already opened six branches in Austria.

Erste Bank and the Caritas charity have a long-standing partnership and have made it one of their aims to help shape the development of Central and Eastern Europe together. Especially in these times of economic turmoil, sharing responsibility in the steady and peaceful social development of the region is one of the biggest concerns of Erste Bank. Therefore, Erste Bank has supported its partner, Caritas, since 1999 – especially its children's aid programmes for Europe's poorest countries.

Another important aspect of our joint effort is the fight against poverty in Austria. In 2008, Erste Bank once again supported the Caritas autumn campaign for people in need – this year with the slogan: "Spender sind Glücksel" ("Donors are Guardian Angels"). Roughly half a million people living in Austria are at risk of falling below the poverty line. Our common goal



was to improve their quality of life permanently. Moreover, for every savings account opened from 1 to 31 December 2008, one euro was given in support of the Austrian “Menschen in Not” charity.

Erste Bank and the Österreichisches Hilfswerk charity, one of the largest Austrian healthcare and nursing care service companies, have been co-operation partners since 2003. The partnership has always been centred around two main issues: people’s increasing life expectancy, which ties in with the big issue of nursing care; and the importance of family. The annual initiative of Österreichisches Hilfswerk for 2008 was targeted at children and childcare. The aim of the initiative, which ran under the motto “Jedem das Seine. Und Kindern das Beste.” (“Each to their Own. And the Best for Children.”) was to highlight current themes and areas of difficulty and to make them the centre of a wider public debate.

Social and cultural initiatives as well as activities of Erste Group were organised within the framework of “Kontakt – The Erste Group Program for Art and Civil Society” in 2008.

The Kontakt programme is a platform for Erste Group’s social and cultural programmes in Central and Eastern Europe. The aim of Kontakt is to actively assist in shaping the social and cultural transformation processes in the region. This should be done by bringing together the people in the region and enabling them to work together to develop new ideas for the future of the region. With this in mind, Kontakt creates its own initiatives and enters into partnerships with institutions, initiatives and artists who are engaged in creative activities or in educational and social projects in Central and Eastern Europe. In this way the Kontakt programme opens up opportunities for co-operation and makes a contribution towards shaping the economic, cultural and socio-political future of Central and Eastern Europe.

One important component of the Kontakt programme is the Erste Bank Group art collection of the same name. This unique collection concerns itself with the creation of art in Central, Eastern and South-Eastern Europe, taking into account contemporary discourses on art and critical theory. It is one of Kontakt’s aims to present works that offer an integral approach to creating a pan-European art history.

#### Music

Since 1989 Erste Bank has commissioned one work from a young Austrian composer once every year. The commissioned work will be premiered by Klangforum Wien at the “Wien Modern” festival; it will additionally be entered into two concert programmes of the excellent ensemble. Erste Bank has been the main sponsor of Klangforum Wien since 2007. The commissioned compositions of the past 18 years have been published in the collection “Der Wert des Schöpferischen – Der Erste-Bank-Kompositionsauftrag 1989-2007”.

#### Film

In 2008, Erste Bank for the fifth time became the partner and main sponsor of the “Viennale”, Austria’s largest international film festival with an annual visitor figure of approx. 90,000. In the past fiscal year, customers and employees were once again able to purchase admission tickets at a reduced price and were given a copy of the “Report” magazine, as well as an exclusive film brunch and access to the festival lounge.

#### Fashion

As a long-standing partner of Unit F, Erste Bank has been presenting the “Kontakt Fashion Award by Erste Bank” to a Central and Eastern European designer during the Viennese

“festival for fashion & photography” since 2006. The winner is selected by an international jury of experts and receives a cash prize. The winning collection is also presented live on the runway at the Austrian Fashion Awards Night.

### Literature

In 2008, Kontakt supported the Unabhängiges Literaturhaus Niederösterreich (ULNÖ). This project, now sponsored for the fourth year, enables authors from Central and Eastern Europe to spend two months in Austria to present their works at readings. In addition, the texts of the mostly unknown authors are presented to the German-speaking audience in the regularly published anthology “Top 22”.

### Fine arts

For many years, Erste Bank has been working closely with Secession. While a number of exhibitions, publications and events are organised each year under this partnership, it is also intended to benefit Erste Bank employees and to acquaint them with art and culture as an enriching part of life. In this spirit, the two partners have developed an art appreciation programme that regularly offers special tours, pre-openings, gallery visits and lectures.

### Sports

In 2008, Erste Bank sponsored more than 175 events for runners throughout the country.

Austria’s largest running initiative, the "Erste Bank Sparkasse Running", represented a perfect symbiosis of preventive healthcare and financial life planning. The Vienna City Marathon is also sponsored by Erste Bank every year. In 2008, Erste Bank also sponsored and named the “Vienna Night Run”, a charity run for the benefit of the charity Light for the World for the second time.

Apart from this, the sport sponsorships also included the Erste Bank Ice Hockey League, and, once again, the traditional football and volleyball school league sponsorships in 2008.

### Education

Together with Mobilkom, McKinsey, OMV, Vienna Insurance Group and Wolf Theiss, Erste Group is involved in the students4excellence programme. students4excellence is a programme that has set itself the aim of putting the partners in touch with the crème-de-la-crème of Austrian university students at an early stage, as well as to help set up student networks. The partner companies assist students in their transition to professional life, hold events with their potential employers, and offer mentoring programmes and products related to their business sectors to selected students.

Erste Bank took a leading role in promoting sustainability together with the University of Vienna as part of the lecture series “Corporate Social Responsibility (CSR) – Zur ökonomischen, ökologischen und sozialen Verantwortung von Unternehmen“ (About the economic, ecological and social responsibility of corporate business). The objective of the lecture series was to discuss fundamental ethical issues in business and to introduce best practice models for economic, ecological and social responsibility as they are applied in the real world. This interdisciplinary lecture series involved economists, philosophers, sociologists and businesspersons, as well as representatives from NGOs. Thanks to the efforts and openness of the project partners involved, it was possible to map out the next development steps for the interdisciplinary research of "business ethics". The debate with students constituted an active stakeholder dialogue.

## **Employees**

A group-wide employee survey was conducted in autumn 2007, involving 55 organisations from seven countries. The feedback rate was 55 percent. A comprehensive analysis carried out in 2008 offered valuable insights for future measures.

A number of initial measures were formulated on the basis of these results. The aim is to create a clearly defined, transparent performance management system and to set up a Best Practice culture. These measures are to be the main pillars of Erste Bank Group's company culture and will provide the focus for human resource development in 2009.

For the third time, Erste Bank and Erste Group received the unqualified certificate of the "Work and Family audit" carried out by the Federal Ministry of Health, Family and Youth. This marks the 10th anniversary for the bank as a successfully audited company. As part of this year's audit, action plans were formulated for the coming three years. These primarily include the deployment of a new career model, the evaluation and enhancement of the range of services and a number of changes to the management training scheme.

As part of the Federal Ministry of Economics and Labour initiative to enhance women's role in business, Erste Bank's raft of measures for an improved work-life balance was recognised as one of the 10 best support projects for women. The programme is geared towards helping women re-enter the workforce after periods of child-related leave, as well as to improve access and advancement opportunities for women in business.

Employee health is an important and indeed central topic of the company philosophy of Erste Bank.

In 2008, all Erste Bank employees in Austria were offered a health check-up, which included a spine check-up. This offer was taken up by 40 percent of our employees. Employees were additionally given the opportunity to undergo melanoma screening, as well as eye and eyesight tests. All these check-ups were carried out at the place of work. Furthermore, Erste Bank's own medical centre offers medical and mental health advice and treatment to employees. The range of services also includes dietary counselling and physiotherapy. In 2008, approximately 9,000 visits were made to the medical centre.

"First Health", a health project for apprentices, was launched in October 2007. This one-year initiative received an award for being a particularly innovative project from the organisation "Fonds Gesundes Österreich", who also provided financial support. Aimed at maintaining and improving apprentices' health, the project successfully slashed apprentices' sick days by more than half.

February 2008 saw the founding of "Erste University", one of Austria's first company universities. The objective of this institution is to further enhance our employees' technical competence. This educational institution sets the framework for a homogeneous training system for the various countries' local banks. One programme of study offered by Erste University is the "Erste Group Junior Training Programme", currently attended by 46 trainees from ten different Central and Eastern-European countries. The curriculum of this programme

covers risk management, corporate investment, real estate banking and treasury services. It is a mixture of practical training in various countries and online courses.

In 2006, the group-wide "Group Talent Management" initiative was introduced. This programme is intended for talented employees from all across Erste Group who are prepared to impart and employ their knowledge across borders. Towards the end of 2008, 23 managers and 40 non-managerial talents were fostered individually and prepared for international career opportunities.

"Learning from experience" was the slogan of the management training programme. In 2008, a management mentoring scheme was developed that constitutes a new way to learn and therefore provides an alternative to conventional training methods. Under this scheme, managers pass their knowledge and experience on to other managers – an exchange that benefits both sides. This gives the mentors an opportunity to reflect on how they approach their work and to learn about the approaches and ideas of other generations and management levels. In turn their protégés learn from their mentors' knowledge and skills, giving them an opportunity for personal growth. In this way, Erste Bank affords experienced managers a view of the latest technical and social developments, while at the same time providing further training to young and competent managers.

## **Environment**

Energy consumption within the company has been noticeably lower owing to a mild summer and winter period and the targeted use of cooling and heating systems. This year's figures on energy and paper use showed an additional marked decrease. This was brought about by regular energy controlling and consumption-reducing measures, and by the active participation of all employees. The waste volume has been significantly reduced due to the continuation of the waste reduction programme.

All environmental measures are regularly evaluated by an established environmental team.

The ÖkoProfit project for 2008 named Erste Bank as an ÖkoBusiness company for its environmental measures.

In September the winning architectural design was chosen for the new company headquarters – the Erste Campus. The first cornerstones were set for the innovative project.

The following priorities were set:

- Energy concept with ambitious reduction targets (stipulation of consumption limits; simulation of room temperatures, relative air humidity and air quality; evidence of fresh air supply).
- Business case (life cycle cost, sustainability analysis)
- Calculation of emissions (use of material resources, recyclable building materials)
- Quality assurance of building construction
- Ergonomics
- Monitoring in the operational phase

The aim is to obtain a low-energy certification. Special care is taken to adhere to the principles of sustainable building construction. The primary energy requirement will be

significantly lower than the current average for office buildings. At the planning and implementation stages, the trends of modern forward-looking office building planning, such as flexibility, sustainability, mobility, interconnectedness, ergonomics, design, security and cost reduction will all be taken into account.

Further environment-related highlights in the last financial year included:

- Expanding the recorded environmental data in the Erste Bank branches and continuation of the energy controlling scheme
- Completion of a new group-wide exchange for printers and combined printer/fax/copier devices at Erste Bank's central offices and branches
- Construction of secure bicycle shelters at two central locations, as well as providing company bicycles to employees to increase employee mobility
- Retrofitting heating systems and using facade concepts in branch conversions
- Retrofitting technicians' vehicles of the property management subsidiary with natural gas technology
- Completing the implementation of energy-conserving LED lighting for outdoor advertising for branches
- Collaboration with klima:aktiv, an initiative of the Ministry of Life for active climate protection and part of the Austrian Climate Strategy. The aim is the rapid and widespread market initiation of climate-friendly technologies and services.
- "Ecological bank branch" project with Wiener Neustadt University of Applied Sciences (Wieselburg campus) to develop sustainable furnishing standards.

## Environmental outlook

In 2009, the environment will once again be a top priority at Erste Bank. The following environmental measures are planned:

- Implementation of the “ecological bank branch” initiative in co-operation with the Wiener Neustadt University of Applied Sciences (Wieselburg campus), and deployment of the concept in other branches.
- Driver training seminars for environmentally sound and fuel-efficient driving (fuel saving training)
- Purchase of additional natural-gas-powered vehicles to strengthen the existing vehicle fleet.
- Additional bicycle shelters at central locations
- Analysis of mobility behaviour
- Continued participation in the ÖkoProfit project

**Comparison of balance sheet at 31 December 2008  
and Proforma at 31 December 2007  
Erste Bank der oesterreichischen Sparkassen AG**

Enclosure to Management Report

**Assets**

	Proforma 31.12.2007 K EUR	31.12.2008 K EUR	Percentage change
Cash in hand and balances with central banks	218.738	147.685	-32,48
Treasury bills and other eligible for refinancing at central banks	2.596.384	1.809.907	-30,29
Loans and advances to credit institutions	2.530.879	4.739.022	87,25
Loans and advances to customers	16.387.182	18.066.014	10,24
Bonds and other fixed-income securities	809.260	919.370	13,61
Shares and other variable-yield securities	69.123	1.055	-98,47
Equity interests and Shares in group companies	1.138.185	1.190.722	4,62
Intangible and tangible fixed assets	57.581	48.448	-15,86
Other assets and prepaid expenses	393.652	1.893.054	380,90
<b>Total Assets</b>	<b>24.200.984</b>	<b>28.815.277</b>	<b>19,07</b>

**Liabilities and Equity**

	Proforma 31.12.2007 K EUR	31.12.2008 K EUR	Percentage change
Amounts owed to credit institutions	8.381.486	9.679.178	15,48
Amounts owed to customers	14.119.846	15.747.804	11,53
Subordinated liabilities	400.000	400.000	0,00
Subscribed capital	587.924	587.924	0,00
Reserves	260.073	293.470	12,84
Other liabilities	330.579	2.012.531	508,79
Retained earnings	121.076	94.370	-22,06
<b>Total Liabilities and Equity</b>	<b>24.200.984</b>	<b>28.815.277</b>	<b>19,07</b>

**Comparison of Profit and Loss Account  
2008 and Proforma 2007  
Erste Bank der oesterreichischen Sparkassen AG**

Enclosure to Management Report

	Proforma 2007 K EUR	2008 K EUR	Percentage change
<b>I. NET INTEREST INCOME</b>	<b>316.444</b>	<b>371.993</b>	<b>17,55</b>
Income from securities and equity interests	87.025	62.661	-28,00
Net interest income and income from securities and equity interests	403.469	434.654	7,73
Net commission income	226.051	201.877	-10,69
Net profit on trading activities	10.955	13.572	23,89
Other operating income	567	171	-69,84
<b>II. OPERATING INCOME</b>	<b>641.042</b>	<b>650.275</b>	<b>1,44</b>
General administrative expenses	-395.458	-409.600	3,58
Depreciation and amortisation of asset items 9 and 10	-27.322	-18.150	-33,57
Other operating expenses	-1.130	-2.350	107,96
<b>III. OPERATING EXPENSES</b>	<b>-423.910</b>	<b>-430.100</b>	<b>1,46</b>
<b>IV. OPERATING RESULTS</b>	<b>217.132</b>	<b>220.175</b>	<b>1,40</b>
Value adjustments of loans and advances and allocations to provisions for contingent liabilities and commitments and Release of value adjustments of loans and advances and provisions for contingent liabilities and commitments	-93.840	-76.024	-18,99
Value adjustments of securities valued as financial fixed assets and of equity interests and shares in group companies and Release of value adjustments of equity interests and shares in group companies	-1.949	-18.536	851,05
<b>V. RESULTS FROM ORDINARY BUSINESS ACTIVITIES</b>	<b>121.343</b>	<b>125.615</b>	<b>3,52</b>
Extraordinary results	-	-332	
Taxes on income and other taxes not included under item 18	-261	-261	0,00
<b>VI. ANNUAL SURPLUS</b>	<b>121.082</b>	<b>125.021</b>	<b>3,25</b>
Movements in reserves	4	-30.651	
<b>VII. PROFIT FOR THE YEAR</b>	<b>121.086</b>	<b>94.370</b>	<b>-22,06</b>
Profit/Loss brought forward from previous year	-10	0	
<b>VIII. ACCUMULATED PROFIT</b>	<b>121.076</b>	<b>94.370</b>	<b>-22,06</b>



Vienna, 9 March 2009

**Management Board**

**Elisabeth Bleyleben-Koren**  
Chairwoman

**Thomas Uher**  
Deputy Chairman

**Peter Bosek**  
Member of the Management Board