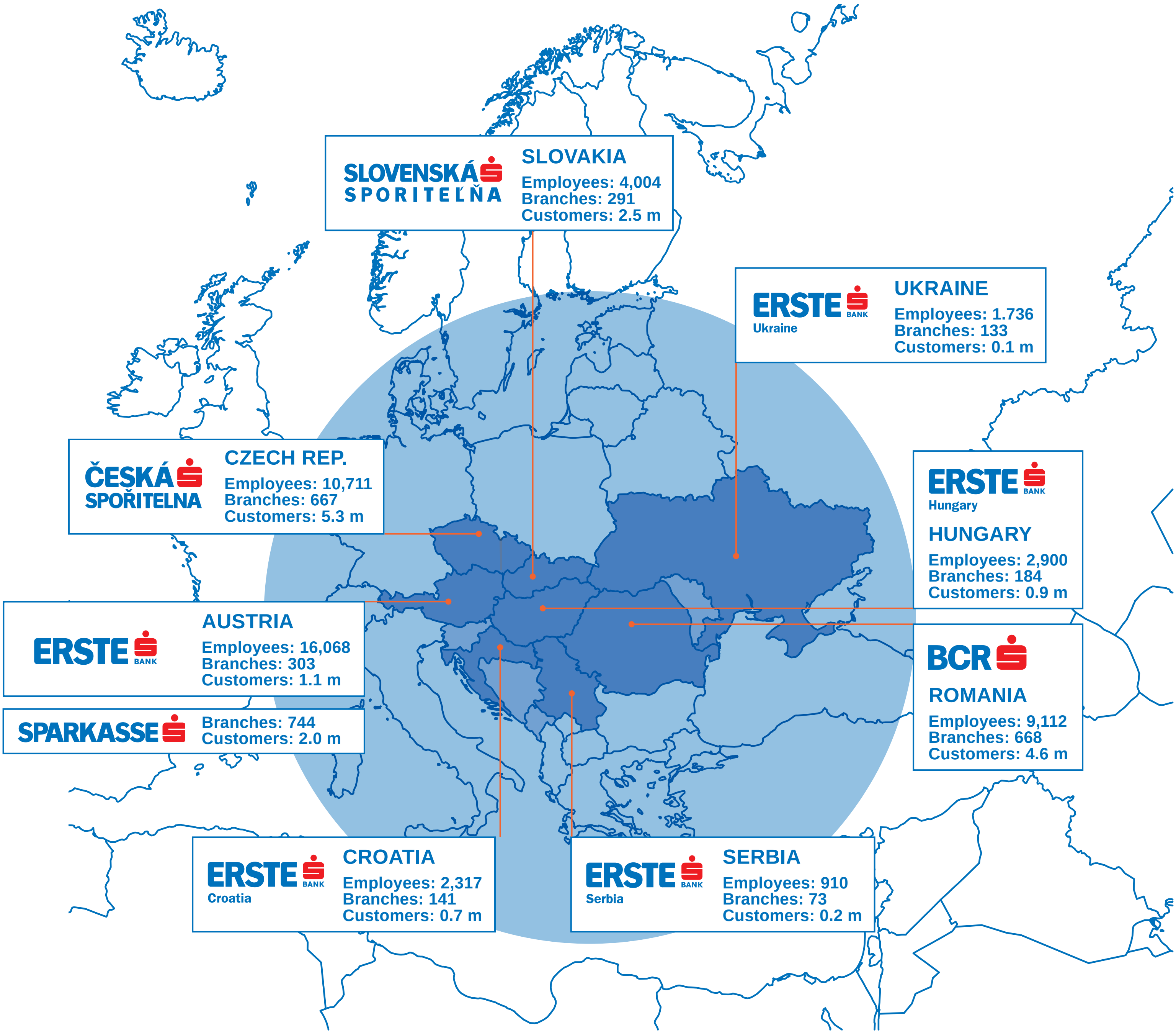
ERSTE GROUP

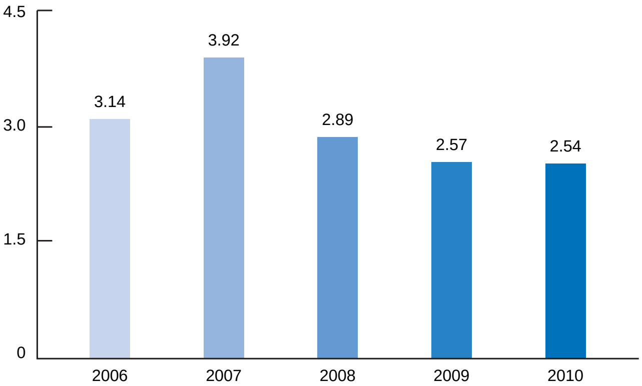
Annual Report 2010

2010

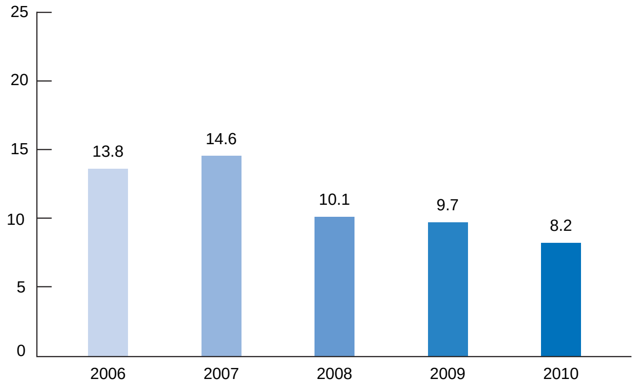
Extensive presence in Central and Eastern Europe



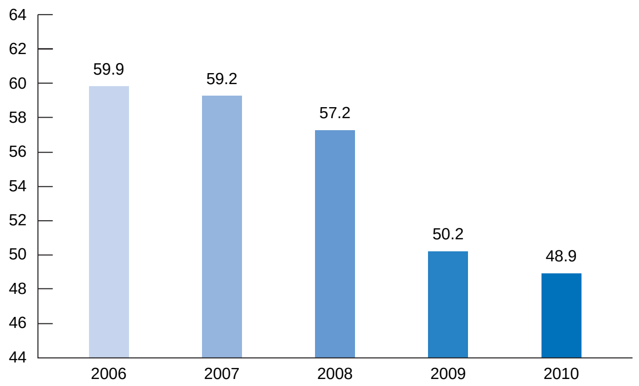
Cash earnings per share in EUR



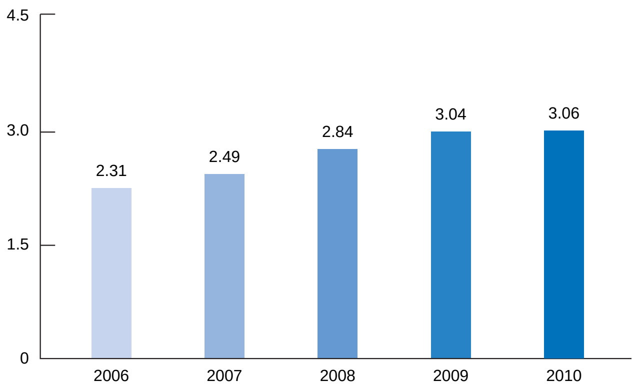
Cash return on equity (in %)



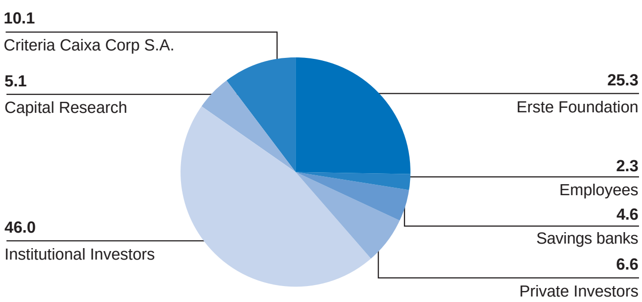
Cost/income ratio (in %)



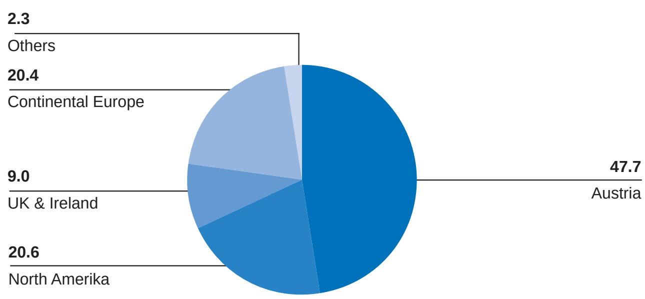
Net interest margin (in %)



Shareholder structure as at 31 December 2010
By investors (in %)



Shareholder structure as at 31 December 2010
By regions (in %)



Ratings as at 31 December 2010

Fitch	
Long-term	A
Short-term	F1
Outlook	Stable
Moody's Investors Service	
Long-term	Aa3
Short-term	P-1
Outlook	Negative
Standard & Poor's	
Long-term	A
Short-term	A-1
Outlook	Negative

INVESTOR RELATIONS

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Key Financial and Operating Data *

EUR million (unless otherwise stated)	2006	2007	2008	2009	2010
Balance sheet					
Total assets	**181,703**	**200,519**	**201,441**	**201,710**	**205,938**
Loans and advances to credit institutions	16,616	14,937	14,344	13,140	12,496
Loans and advances to customers	97,107	113,956	126,185	129,134	132,729
Risk provisions for loans and advances	-3,133	-3,296	-3,783	-4,954	-6,119
Securities, other financial assets	41,009	42,404	39,238	40,298	39,957
Other assets	30,104	32,518	25,457	24,092	26,875
Total liabilities and equity	**181,703**	**200,519**	**201,441**	**201,710**	**205,938**
Deposits by banks	37,688	35,165	34,672	26,295	20,154
Customer accounts	90,849	100,116	109,305	112,042	117,016
Debts securities in issue, subordinated capital	27,024	36,667	36,530	35,760	37,136
Other liabilities, provisions	15,238	17,168	9,839	11,490	14,503
Equity attributable to non-controlling interests	2,925	2,951	3,016	3,414	3,544
Equity attributable to owners of the parent	7,979	8,452	8,079	12,709	13,585
Changes in total qualifying capital					
Risk-weighted assets pursuant to section 22 Austrian Banking Act	94,129	95,091	103,663	106,383	103,950
Qualifying consolidated capital pursuant to sections 23 & 34 Austrian Banking Act	10,111	11,114	11,758	15,772	16,220
Core capital (Tier 1)	6,185	6,674	7,448	11,450	12,219
Hybrid capital	1,250	1,248	1,256	1,174	1,200
Solvency ratio pursuant to section 22 Austrian Banking Act	10.2%	10.1%	9.8%	12.7%	13.5%
Tier 1 ratio (credit risk)	6.6%	7.0%	7.2%	10.8%	11.8%
Income statement					
Net interest income	3,189.3	3,945.8	4,913.1	5,220.9	5,412.5
Risk provisions for loans and advances	-439.1	-454.7	-1,071.4	-2,056.6	-2,031.2
Net commission income	1,445.9	1,857.9	1,971.1	1,772.8	1,936.0
Net trading result	277.9	351.1	114.7	585.1	456.2
General administrative expenses	-2,945.3	-3,642.1	-4,001.9	-3,807.4	-3,816.8
Operating result	1,967.8	2,512.7	2,997.0	3,771.4	3,987.9
Pre-tax profit	1,486.4	1,892.6	576.2	1,261.3	1,515.1
Net profit after minorities	932.2	1,174.7	859.6	903.4	1,015.4
Operating data					
Number of employees	50,164	52,442	52,648	50,488	50,272
Number of branches	2,721	2,908	3,147	3,205	3,204
Number of customers (million)	15.9	16.4	17.2	17.5	17.4
Share price and key ratios					
High (EUR)	59.00	61.50	49.20	31.15	35.59
Low (EUR)	40.40	44.00	13.25	7.00	25.10
Closing price (EUR)	58.10	48.50	16.20	26.06	35.14
Price/earnings ratio	19.7	13.1	6.0	10.9	13.1
Dividend per share (EUR)	0.65	0.75	0.65	0.65	0.70
Payout ratio	22.0%	20.2%	24.0%	27.2%	26.1%
Dividend yield	1.1%	1.5%	4.0%	2.5%	2.0%
Book value per share (EUR)	25.6	27.0	25.8	28.9	31.2
Price/book ratio	2.3	1.8	0.6	0.9	1.1
Total shareholder return (TSR)	24.7%	-15.4%	-65.1%	64.9%	37.3%
Number of shares					
Number of shares outstanding	315,296,185	316,288,945	317,012,763	377,925,086	378,176,721
Average number of shares outstanding	300,272,502	312,039,861	313,218,568	322,206,516	374,695,868
Market capitalisation (EUR billion)	18.3	15.3	5.1	9.8	13.3
Trading volume (EUR billion)	16.8	23.1	29.4	13.3	15.3

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

Due to reclassifications, the positions trading assets/liabilities, derivative financial instruments and other assets/liabilities deviate from amounts published in the financial statements for the year 2009 (see chapter C on accounting policies).

Dividend quoted for 2010 is proposal to annual general meeting.

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

Trading volume as reported by Vienna Stock Exchange.

Highlights

Continued revenue growth
_ Stable margins underpin solid net interest income
_ Fast rising fee income

Excellent cost performance
_ Operating expenses stable year-on-year
_ Cost/income ratio at best ever level of 48.9%

Trend reversal in risk provisions
_ First year-on-year decline since 2004
_ Excellent development in Austria

NPL growth decelerates significantly
_ NPL ratio rises to 7.6% at year-end 2010
_ NPL coverage improves to 60.0% in 2010

Improved funding and liquidity position
_ Strong deposit base is key competitive advantage
_ Successful covered bond issuance

Further improvement in capital ratios
_ Core tier 1 ratio at record 9.2% at year-end
_ Strong earnings generation, while RWAs decline

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Letter from the CEO

Dear shareholders,

in 2010, Erste Group increased net profit by 12.4% to EUR 1,015.4 million – the second best net profit in our history and the highest since 2007 – thanks to a strong operating result and lower risk costs. This achievement was supported by the gradual economic recovery on the one hand and by strong improvements in operating efficiency on the other. While a better operating environment underpinned the stabilisation in risk costs as well as the rise in operating income, cost containment also played a key role in pushing the cost/income ratio to its lowest ever level at 48.9%. Overall, accelerating internal capital generation led to significantly enhanced capital ratios, with the core tier 1 ratio reaching 9.2% in 2010. At the same time, our funding profile improved further: short-term funding needs declined, while long-term, covered bond issuance rose. In short, Erste Group improved all aspects of its business, becoming a stronger banking group as a result. In line with this solid performance, the management of Erste Group will propose an increased dividend of EUR 0.70 (2009: EUR 0,65) to the annual general meeting.

CEE benefits from positive differentiation

Sentiment towards Central and Eastern Europe improved significantly in 2010. This was not only driven by the economic recovery, but also by the realisation that most CEE countries have substantially better growth prospects and much more sustainable public finances than their peers in the eurozone periphery. It became increasingly evident that they benefit from lower levels of public and private debt, they are more competitive due to their strong industrial base and export orientation and offer a more favourable investment climate in terms of taxation and proximity to West European consumer markets. As a result, funding costs as well as credit default spreads for many countries in the region declined to an extent where they could issue debt at cheaper levels than better-rated euro zone member states.

Nevertheless, the economic development was far from balanced in the region. Austria, the Czech Republic, Slovakia and Hungary benefited from strongly increased export demand and all posted real economic growth in 2010. Given their lower degree of openness, Croatia and Romania lagged this development, but also saw a marked slowdown in the economic decline. In all countries, with the exception of Austria, private consumption remained weak in the past year. This and generally low levels of inflation across the region enabled central banks to reduce interest rates to historic lows. While expansive monetary policies provided support for the still fragile recovery, they did not kick-start the banking market. Demand for loans remained muted and was mostly focused on secured business rather than consumer loans. The most unpleasant development in relation to our markets was the introduction of banking taxes in Hungary and Austria, in the former as of 2010 and in the latter as of 2011. This move was all the more unfortunate as it neither sought to discourage risk taking nor to create a backstop for future crises, but was simply aimed at supplementing the budget by generating additional revenues.

Operating efficiency improves while risk costs fall

While new taxes, not earmarked for any specific use, were among the negatives for 2010, continued operating excellence, the first year-on-year decline in risk costs since 2004 and a strong performance in Slovakia were among the positives. The remarkable improvement in operating efficiency was reflected in the fact that risk costs more than quadrupled since 2007, while net profit declined only marginally over the same time.

The solid operating performance resulted from continued revenue growth on the one hand and stable operating expenses on the other. Revenues were driven primarily by a rise in net interest income on the back of stable margins and a small increase in customer loans, and strongly growing fee income, while the net trading result fell back from the record level of 2009, as expected. On the cost side, slight increases in personnel and depreciation expenses were almost fully offset by a decline in other administrative expenses.

Within our core markets, the Slovak retail and SME business showed the most promising performance: operating as well as net profit grew significantly on the back of the restructuring measures implemented in 2009. The decline in risk costs was mainly due to the economic recovery. Similarly, the Austrian and Czech retail and SME business posted growing operating and net profit. While in Hungary operating profit also grew, this positive development was more than offset by the introduction of the banking tax, which was the main reason behind the negative bottom line result. The Romanian retail and SME business continued to suffer from a very weak operating environment, as unemployment rose, private consumption declined and public sector wages were cut. Nevertheless, some green shoots became visible in the fourth quarter of 2010, when real GDP posted marginal growth compared to the previous quarter.

In line with the improving economic environment, credit quality stabilised in the past year. While the NPL ratio based on customer loans continued to rise – albeit at a slowing pace – to 7.6%, risk costs declined to 155 basis points in relation to average customer loans. At the same time, NPL coverage by risk provisions increased to 60.0%. Austria performed the best, with all customer segments posting an absolute decline in non-performing loans; this went hand in hand with falling risk costs and rising NPL coverage. In Central and Eastern Europe, the picture was mixed: while all countries reported a rise in non-performing loans, trend reversals were seen in all countries apart from Romania and Hungary in the second half of 2010. This improvement was also confirmed by the reopening of secondary markets for defaulted loans. Across Central and Eastern Europe the retail segment performed significantly better than the SME and local corporate segment. This was particularly true for Romania, where small and medium enterprises suffered due to continued weakness of the economy. In contrast, the group-wide large corporate business continued to do well, with a marginal increase in non-performing loans year-on-year and a sequential improvement in the fourth quarter of 2010.

Funding & capital strength

2010 brought increasing, if not full clarity on bank capital requirements under the new Basel III regime: a common equity capital ratio of 4.5% and a capital conservation buffer of 2.5% effective from 2019 were set. Two of the open issues in early 2011 remained the size of any capital surcharge for systemically important banks and the asymmetric treatment of minority capital. The latter is mostly an issue in relation to our consolidation of the Austrian savings banks but will be addressed by seeking an exemption, which recognises the economic logic behind this cooperation. Should such an exemption not be granted, we will seek a new form of cooperation with the savings banks. The systemic surcharge – if introduced by the home supervising regulator – will be addressed through internal capital generation. Irrespective of Basel III, our capital base continued to widen in 2010. At a core tier 1 ratio of 9.2% (excluding state- and privately-owned participation capital: 7.7%), we feel that our capitalisation was more than commensurate with the requirements of our real economy-driven business model.

Erste Group's access to reasonably priced long-term funding and the rapidly declining reliance on the interbank market remained a key competitive advantage in 2010. On the long end we leveraged our AAA-rated Austrian mortgage pool by issuing long-dated covered bonds. In doing so, we extended the maturity profile of our debt and substituted long- for short-term funding. On the short-end, our interbank debt decreased significantly and was more than fully covered by central bank eligible collateral, thereby providing full protection against a breakdown of the interbank markets.

Positioned for growth

Our successful performance in 2010 was in no small part the achievement of our employees, who continued to work hard to improve client service, increase efficiency and maintain sustainable business practices. For this I would like to express my gratitude. Looking into 2011 our assessment of the business environment remains positive. This view is based on the expected improvement in the CEE region's economic fundamentals, which are set to be complemented by declining risk costs and a solid operating performance, which will more than offset the increased taxation of banks in Austria and Hungary. Our leading market shares and extensive branch network will also support this trend, allowing us to capture growth in our markets, as it arises.

Andreas Treichl mp

Management Board

from left to right:
Juranek, Spalt, Treichl, Wimmer, Škopek, Hochstrasser, Mittendorfer

ANDREAS TREICHL

Appointed until June 2012

Born in 1952

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

Responsibilities: Chairman's Office, Group Audit, Group Communications, Group Human Resources, Group Investor Relations, Group Marketing, Group Identity, Group Secretariat, good.bee – banking for the unbanked, Health Center

FRANZ HOCHSTRASSER

Appointed until June 2012

Born in 1963

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

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

GERNOT MITTENDORFER

Appointed until June 2012

Born in 1964

He studied law in Linz and started his career with Erste Group in 1990. After various positions as member of the management board among others at Sparkasse Mühlviertel West Bank AG he was appointed CEO of Salzburger Sparkasse Bank AG. In 2007 he joined Česká spořitelna as CEO. Member of the Management Board at Erste Group Bank AG since January 2011.

Responsibilities: Group Real Estate & Leasing, Group Investment Banking, Group Large Corporates Banking, Local Corporate Banking, Corporate Support and Operations, GCIB Portfolio Management

MANFRED WIMMER

Appointed until June 2012

Born in 1956

He studied law in Innsbruck. He started his career with Creditanstalt-Bankverein, Vienna in 1982. He joined Erste Group in 1998. After various senior management positions he was appointed interim CEO of Banca Comercială Română. Member of the management board as Chief Financial Officer and Chief Performance Officer since September 2008.

Responsibilities: Group Accounting, Group Performance Management, Management of Subsidiaries and Investments

BERNHARD SPALT

Appointed until June 2012

Born in 1968

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

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

HERBERT JURANEK

Appointed until June 2012

Born in 1966

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

Responsibilities: Group Organisation/IT, Group Operations/Processing, Group Property Management

MARTIN ŠKOPEK

Appointed until June 2012

Born in 1967

A graduate of the University of Economics in Prague. Prior to joining Erste Group in 1999, he worked at Komerční banka. From 1999 to 2006 Retail Executive Vice-president at Česká spořitelna. In 2010 he was appointed Executive Vice-president for Retail and Private Banking at Banca Comercială Română. Member of the Management Board at Erste Group Bank AG since July 2010.

Responsibilities: Group Retail Business Development, Wealth Creation, Group Card Management

Supervisory Board Report

Dear shareholders,

We were informed promptly and comprehensively throughout the financial year 2010 of the development of business and of the company by the management board in written as well as oral reports at regular meetings. This enabled us to comply with obligations imposed on us by law, the articles of association and the Corporate Governance Code, and ascertain the proper conduct of business.

Financial statements, management report, proposal for the appropriation of the profit, corporate governance report

The financial statements (consisting of the balance sheet, income statement and notes) and the management report as well as the consolidated financial statements and the group management report for 2010 were audited by Sparkassen-Prüfungsverband as the statutory auditor and also by the additionally appointed auditor Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H., which awarded the financial statements an unqualified audit opinion. Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. was also appointed voluntary auditor for the Corporate Governance Report 2010. The audit did not give rise to any objections. Representatives of the two auditors participated in the meeting of the supervisory board on the financial statements and presented their comments on the audits conducted.

Based on our own review, we hereby agree with the results of these audits and with the management board's proposal for the appropriation of the profit. We approved the financial statements prepared by the management board, thereby adopting these pursuant to Article 96 par. 4 Austrian Stock Corporation Act. The management report, consolidated financial statements, group management report and corporate governance report have been acknowledged and accepted.

Changes in board memberships

In March 2010, the supervisory board appointed Martin Škopek, effective as of 1 July 2010 through 30 June 2012, as a member of the management board of Erste Group Bank AG. Martin Škopek heads the Division Group Retail Banking. Prior to his new role, he had served as a member of the management board of Česká spořitelna and afterwards of Banca Comercială Română; at both banks he was also responsible for retail banking.

On behalf of the supervisory board, I would like to express our deep sorrow over the sudden and unexpected death of management board member Johannes Leobacher on 14 October 2010. Johannes Leobacher had been appointed to the management board of Erste Group Bank AG as of 1 April 2009 and contributed significantly to the performance of the bank during his tenure, as he had already done in his previous function as Head of Group Capital Markets. Johannes Leobacher was a highly regarded colleague who has made a difference. He never forgot that banking is a business for people by people.

The supervisory board appointed Gernot Mittendorfer as new management board member of Erste Group Bank AG effective as of 1 January 2011 through 30 June 2012. Gernot Mittendorfer acts as Head of the Division Group Corporate & Investment Banking. Prior to his new role, he was Chairman of the Board of Česká spořitelna.
For the supervisory board:

Heinz Kessler mp
President of the Supervisory Board

Vienna, March 2011

Corporate Governance

Corporate Governance Report

of Erste Group Bank AG pursuant to Section 243b Austrian Commercial Code and rules 60 et seq of the Austrian Code of Corporate Governance as of 31 December 2010.

CODE OF CORPORATE GOVERNANCE

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

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

COMMITMENT TO COMPLY WITH THE RULES OF THE AUSTRIAN CCG

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

In financial year 2010, Erste Group Bank AG complied with all L rules (legal requirement) and R rules (recommendation). The deviation from a “Comply or Explain” rule (C rules) is presented and explained below.

QUALIFICATION AND COMPOSITION OF THE SUPERVISORY BOARD 52 (C)

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

Due to the size of the company, the supervisory board of Erste Group Bank AG (excluding employees’ representatives) consists of 12 members.

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

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

Andreas Treichl (Chairman)
Born 1952
Member of the management board since 1 October 1994
End of the current period of office: 30 June 2012

Franz Hochstrasser (Vice Chairman)
Born 1963
Member of the management board since 1 January 1999
End of the current period of office: 30 June 2012

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

Johannes Leobacher †
1964 - 2010
Member of the management board from 1 April 2009 to 14 October 2010

Martin Škopek
Born 1967
Member of the management board since 1 July 2010
End of the current period of office: 30 June 2012

Bernhard Spalt
Born 1968
Member of the management board since 1 November 2006
End of the current period of office: 30 June 2012

Manfred Wimmer
Born 1956
Member of the management board since 1 September 2008
End of the current period of office: 30 June 2012

Gernot Mittendorfer
Born 1964
Member of the management board since 1 January 2011
End of the current period of office: 30 June 2012

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

Andreas Treichl
DONAU Versicherung AG Vienna Insurance Group (Vice Chairman)
MAK – Österreichisches Museum für angewandte Kunst (Chairman)
Österreichische Galerie Belvedere
Sparkassen Versicherung AG Vienna Insurance Group (Chairman)

Franz Hochstrasser
CEESEG Aktiengesellschaft
Oesterreichische Kontrollbank Aktiengesellschaft (Vice Chairman)
Wiener Börse AG

Herbert Juranek
None

Johannes Leobacher †
None

Martin Škopek
None

Bernhard Spalt
Österreichische Clearingbank AG (Vice Chairman)

Manfred Wimmer
None

Gernot Mittendorfer (since 1 January 2011)
None

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

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

Heinz Kessler
General Director, ret.
Born 1938
Supervisory board member since 26 May 1998
End of the current period of office: AGM 2012

Georg Winckler
Born 1943
Rector of the University of Vienna
Professor of economic sciences at the University of Vienna
Supervisory board member since 27 April 1993
End of the current period of office: AGM 2015

Theresa Jordis
Born 1949
Attorney at law
Supervisory board member since 26 May 1998
End of the current period of office: AGM 2013

Bettina Breiteneder
Born 1970
Entrepreneur
Supervisory board member since 4 May 2004
End of the current period of office: AGM 2014

Elisabeth Gürtler
Born 1950
Entrepreneur
Supervisory board member since 26 May 1998
End of the current period of office: AGM 2015

Jan Homan
Born 1947
Chairman
Supervisory board member since 4 May 2004
End of the current period of office: AGM 2014

Brian D. O'Neill
Born 1953
Vice Chairman
Supervisory board member since 31 May 2007
End of the current period of office: AGM 2012

Juan Maria Nin Génova
Born 1953
President and CEO
Supervisory board member since 12 May 2009
End of the current period of office: AGM 2014

Wilhelm Rasinger
Born 1948
Consultant
Supervisory board member since 11 May 2005
End of the current period of office: AGM 2015

Friedrich Rödler
Born 1950
Auditor and tax advisor
Supervisory board member since 4 May 2004
End of the current period of office: AGM 2014

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

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

Delegated by the employees council

Markus Haag
Born 1980
Supervisory board member from 16 June to 17 Sept. 2010

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

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

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

Bertram Mach
Born 1951
Supervisory board member until 16 June and as of 17 Sept.2010
End of the current period of office: until withdrawn

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

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

Chairman and Vice Chairpersons of the supervisory board

Heinz Kessler	Chairman
Georg Winckler	1st Vice Chairman
Theresa Jordis	2nd Vice Chairwoman

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

Listed by member

Heinz Kessler
Committee for Management Board Matters (Chair)
Construction Committee
Audit Committee (Chair)
Risk Management Committee
Strategy Committee (Chair)

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

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

Bettina Breiteneder
Construction Committee (Chair)
Audit Committee (Substitute)
Risk Management Committee

Elisabeth Gürtler
Risk Management Committee (Substitute)

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

Juan Maria Nin Génova
Strategy Committee

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

Friedrich Rödler
Audit Committee
Construction Committee
Risk Management Committee (Chair)
Strategy Committee

Werner Tessmar-Pfohl
Construction Committee

Delegated by the employees council

Markus Haag (from 16 June to 17 Sept. 2010)
Risk Management Committee
Strategy Committee

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

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

Friedrich Lackner
Audit Committee
Construction Committee
Strategy Committee

Bertram Mach (until 16 June and as of 17 Sept. 2010)
Risk Management Committee
Strategy Committee

Barbara Smrcka
Audit Committee
Construction Committee

Karin Zeisel
Risk Management Committee

Listed by committee

Committee for Management Board Matters
Heinz Kessler (Chair)
Georg Winckler
Theresa Jordis

Construction Committee
Bettina Breiteneder (Chair)
Heinz Kessler
Friedrich Rödler
Werner Tessmar-Pfohl
Friedrich Lackner
Barbara Smrcka

Audit Committee
Heinz Kessler (Chair)
Georg Winckler
Theresa Jordis
Jan Homan
Wilhelm Rasinger
Friedrich Rödler
Bettina Breiteneder (Substitute)
Friedrich Lackner
Barbara Smrcka
Christian Havelka
Andreas Lachs (Substitute)

Risk Management Committee
Friedrich Rödler (Chair)
Heinz Kessler
Georg Winckler
Theresa Jordis
Bettina Breiteneder
Wilhelm Rasinger
Elisabeth Gürtler (Substitute)
Jan Homan (Substitute)
Andreas Lachs
Bertram Mach (until 16 June and as of 17 Sept. 2010)
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Friedrich Rödler
Wilhelm Rasinger (Substitute)
Friedrich Lackner
Christian Havelka
Bertram Mach (until 16 June and as of 17 Sept. 2010)
Markus Haag (from 16 June to 17 Sept. 2010)
Andreas Lachs (Substitute)

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

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

Georg Winckler
Austria Versicherungsverein auf Gegenseitigkeit Privatstiftung (Chair)
DIE ERSTE österreichische Spar-Casse Privatstiftung (Vice Chair)
Innovationszentrum Universität Wien GmbH
Steiermärkische Bank und Sparkassen Aktiengesellschaft
UNIQA Versicherungen AG* (Vice Chair)

Theresa Jordis
Miba Aktiengesellschaft* (Chair)
Mitterbauer Beteiligungs - Aktiengesellschaft (Chair)
Prinzhorn Holding GmbH (Chair)
Wolford Aktiengesellschaft* (Chair)
Austrian Airlines AG*

Bettina Breiteneder
ZS Einkaufszentren Errichtungs- und Vermietungs-Aktiengesellschaft

Elisabeth Gürtler
ATP Planungs- und Beteiligungs-Aktiengesellschaft (Vice Chair)
Chokoladefabriken Lindt & Sprüngli AG
Oesterreichische Nationalbank (General Council)
Österreich Werbung
Österreichische Hoteliervereinigung (Board of Directors)
Wiener Kongresszentrum Hofburg Betriebs GmbH

Jan Homan
Allianz Elementar Versicherungs-Aktiengesellschaft
Alucommerz AG
Constantia Colmar Inc.

Brian D. O'Neill
Emigrant Bank (Dir.)
CorpBanca (Dir.)

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

Wilhelm Rasinger
CEE Immobilien Development AG
Sparkassen Immobilien AG*
Wienerberger AG*

Friedrich Rödler
Erste Bank der oesterreichischen Sparkassen AG

John James Stack
Ally Financial Inc.*
ShoreBank International
Mutual of America*

Werner Tessmar-Pfohl
Sattler AG (Chair)
Steiermärkische Bank und Sparkassen Aktiengesellschaft (Chair)
Teufelberger Holding Aktiengesellschaft (Vice Chair)

Delegated by the employees council

Friedrich Lackner
DIE ERSTE österreichische Spar-Casse Privatstiftung

Markus Haag
None

Christian Havelka
None

Andreas Lachs
None

Bertram Mach
None

Barbara Smrcka
None

Karin Zeisel
None

INDEPENDENCE CRITERIA DEFINED BY THE SUPERVISORY BOARD (C RULE 53 OF THE AUSTRIAN CCG)

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

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

- **The supervisory board member is not permitted to have been a member of the management board or a managing employee of the company or a subsidiary of the company in the past five years.**
- **The supervisory board member should not have any business relations with the company or a subsidiary of the company to an extent of significance for the supervisory board member or in the past year. This shall also apply to business relations with companies in which the supervisory board member has a material economic interest, but not for carrying out functions on the bodies of the Group. The approval of individual transactions by the supervisory board pursuant to L rule 48 does not automatically qualify the respective supervisory board member as not being independent.**
- **The supervisory board member should not have served as auditor for the company or have been involved in an audit or worked as an employee of the auditing firm in the past three years.**
- **The supervisory board member should not be a management board member at another company in which a member of the management board of the company is a supervisory board member.**
- **The supervisory board member should not have been a member of the supervisory board for more than 15 years. This does not apply to members of the supervisory board that are shareholders with stakes in the company or that represent the interests of such shareholders.**
- **The supervisory board member should not be a close family relation (children, spouse, life partner, parent, uncle, aunt, sibling, niece, nephew) of a member of the management board or of persons that are in one of the aforementioned positions.**

Presentation of the members deemed independent (C rule 53 of the Austrian CCG)

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

Presentation of the members of the supervisory board which meet the criteria of C rule 54 of the Austrian CCG

Four members of the supervisory board hold a function on a body of a company that owns over 10% of the shares in Erste Group Bank AG (Kessler, Winckler, Lackner, Nin); additionally, in 2010, one member (Rasinger) represented, above all, the interests of retail shareholders.

Note if a member of the supervisory board failed to personally attend more than half of the meetings of the supervisory board in the reporting year (C rule 58 Austrian CCG)

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

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

The firm DORDA BRUGGER JORDIS Rechtsanwälte GmbH, in which Theresa Jordis is a partner, invoiced companies of Erste Group for consulting work for an amount of EUR 348,775.69 in 2010. Friedrich Rödler is Senior Partner at PricewaterhouseCoopers Austria. Companies of this group billed companies of Erste Group for consulting work in an amount of EUR 54,726.00 in 2010.

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

Management Board

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

Supervisory Board

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

AREAS OF COMPETENCE ON THE MANAGEMENT BOARD AS OF 31 DECEMBER 2010 (C RULE 16 AUSTRIAN CCG)

Andreas Treichl (Chairman)

Chairman's Office, Group Audit, Group Communications, Group Human Resources, Group Investor Relations, Group Marketing, Group Identity, Group Secretariat, good.bee – banking for the unbanked, Health Center

Franz Hochstrasser (Vice Chairman)
Group Research, Group Balance Sheet Management, Group Capital Markets
On an interim basis: Group Real Estate & Leasing, Group Investment Banking, Group Large Corporates Banking, Local Corporate Banking, Corporate Support and Operations, GCIB Portfolio Management

Herbert Juranek
Group Org/IT, Group Operations/Processing, Group Property Management

Martin Škopek
Group Retail Business Development, Wealth Creation, Group Card Management

Bernhard Spalt
Group Strategic Risk Management, Group Corporate Risk Management, Group Retail Risk Management, Group Legal, Group Corporate Workout, Group Compliance, Group Security Management

Manfred Wimmer
Group Accounting, Group Performance Management, Management of Subsidiaries and Investments

AREAS OF COMPETENCE ON THE MANAGEMENT BOARD AS OF 1 JANUARY 2011

Andreas Treichl (Chairman)
Chairman's Office, Group Audit, Group Communications, Group Human Resources, Group Investor Relations, Group Marketing, Group Identity, Group Secretariat, good.bee – banking for the unbanked, Health Center

Franz Hochstrasser (Vice Chairman)
Group Research, Group Balance Sheet Management, Group Capital Markets

Herbert Juranek
Group Org/IT, Group Operations/Processing, Group Property Management

Gernot Mittendorfer
Group Real Estate & Leasing, Group Investment Banking, Group Large Corporates Banking, Local Corporate Banking, Corporate Support and Operations, GCIB Portfolio Management

Martin Škopek
Group Retail Business Development, Wealth Creation, Group Card Management

Bernhard Spalt
Group Strategic Risk Management, Group Corporate Risk Management, Group Retail Risk Management, Group Legal, Group Corporate Workout, Group Compliance, Group Security Management

Manfred Wimmer
Group Accounting, Group Performance Management, Management of Subsidiaries and Investments

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

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

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

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

Audit committee
The audit committee is responsible for the supervision of the accounting process; the supervision of the effectiveness of the internal controlling system, the internal audit system and the risk management system; the supervision of the annual audit and the annual group audit; reviewing and supervising the qualification and the independence of the auditor (group auditor); reviewing and prepar-

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

Committee for management board matters

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

Due to changes in legislation, the committee for management board matters will be renamed nomination and remuneration committee and its scope of functions will be enlarged in the financial year 2011.

Construction committee

The construction committee is responsible for advising the management board and for preparing resolutions to be adopted by the supervisory board with respect to "Erste Campus", the future headquarters of Erste Group.

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

Six meetings of the supervisory board were held in the financial year 2010.

At each ordinary meeting of the supervisory board, the monthly developments of the balance sheet and the income statement were presented and reports were given on current market risk, risk-bearing capacity, the individual status of the banking subsidiaries in Central and Eastern Europe and on the areas audited and the material findings of these audits by the internal audit department. The chairpersons of the committees reported on the main topics dealt with by the committees since the last supervisory board meeting. A topic repeatedly discussed at supervisory board meetings was the respective status of the development of capital and liquidity regulation in Europe.

On 16 March 2010, the financial statements and management report 2009, the consolidated financial statements and management report 2009 as well as the corporate governance report 2009 were audited; the financial statements 2009 were adopted in accordance with the recommendation of the audit committee, and the proposal for the distribution of the profit 2009 approved. The approval for the construction of the new corporate headquarters in Vienna was given; the move to "Erste Campus" will be completed in 2015. The supervisory board lauded the outstanding achievements of Elisabeth Bleyleben-Koren who resigned from her position at Erste Bank Oesterreich on 30 June 2010 and expressed its appreciation for her many years of service. Martin Škopek was appointed to the management board as seventh member as of 1 July 2010 through 30 June 2012. Furthermore, proposals for resolutions to be submitted to the ordinary shareholders' meeting 2010 were approved. The findings of the internal evaluation of the supervisory board pursuant to the Code of Corporate Governance were discussed and the annual compliance report submitted.

At the constituent meeting on 12 May 2010, after the general shareholders' meeting, the resolution was passed on the appointments to the committees of the supervisory board and on the distribution key for the remuneration of the supervisory board resolved at the general shareholders' meeting.

On 23 June 2010, a report was delivered on the IT strategy of Erste Group and the report on major participations for 2009 and the first quarter 2010 were discussed. Another item on the agenda was the new distribution of responsibility for business areas: by circular resolution, after the meeting, retail banking was assigned to Martin Škopek and corporate banking to Johannes Leobacher.

On 15 September 2010, a report on the status of Basle III was delivered and the guidelines for the new remuneration policy were presented.

At the extraordinary meeting of the supervisory board on 28 October 2010, a moment of silence was held in honour of Johannes Leobacher who passed away unexpectedly on 14 October 2010. Following a swift and intensive search by the committee for management board matters, the decision was taken to propose to the supervisory board Gernot Mittendorfer for appointment as a member to the management board; Gernot Mittendorfer had served as chairman and CEO of Česká spořitelna since May 2007. The supervisory board unanimously passed the resolution to appoint Gernot Mittendorfer to the management board as of 1 January 2011 through 30 June 2012.

On 15 December 2010, the budget and the investment plan 2011 of Erste Group Bank AG were approved and the Group projections for 2011 were presented. The annual report on large exposures was also presented and the latest update on the planned banking tax given.

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

The risk management committee held 17 meetings in 2010, at which it regularly took decisions on exposures and loans exceeding the powers of the management board and was briefed on loans granted within the scope of authorization of the management board. The committee was regularly informed of current credit risk, market risk, risk bearing capacity and large exposures. Special reports were delivered on hedge fund exposure, audits by the OeNB and on the exposure to southern European eurozone countries.

The strategy committee met four times in 2010. Reports were presented on the planned changes to the holding organisation, equity participations, the competitive situation in Austria and the CEE states as well as several times on Basel III and the planned banking tax. Furthermore, the committee decided on the appointment of persons authorised to sign on behalf of the bank as well as on changes to existing management-works' council agreements.

The audit committee met four times in 2010. The auditors reported on the status of the audit of the financial statements and consolidated financial statements. Subject to the approval of the supervisory board, the decision was taken to propose Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. to the general shareholders' meeting as additional (Group) auditor for the financial year 2011. The supervisory board approved this proposal at its next meeting. Furthermore, the audit committee conducted its final discussion. The financial statements and the management report, as well as the group financial statements and the group management report, and the corporate governance report were audited and recommended to the supervisory board for adoption, and the proposal of the management board for the distribution of the net profit for the financial year 2009 was acknowledged. The head of the internal audit department reported on the areas audited and the key findings of the audit for the year 2009 and explained the audit plan for 2010. The internal audit department presented its report pursuant to Section 42 paragraph 3 Banking Act. A report on changes to money laundering provisions was presented together with the results of the audit on compliance with money laundering provisions. At the last meeting of the year 2010, the bank auditors presented the results of the preliminary audit and the focal points of their audit. The audit committee issued the instructions to obtain a bid for the audit of the (consolidated) financial statements 2012.

The committee for management board matters met five times in 2010. The topics discussed included the new remuneration policy, the appointment of a new member to the management board responsible for the Retail Banking division and the appointment of a successor to Johannes Leobacher.

The construction committee met five times in 2010. The main topics discussed were the project plan, project organisation, budget and costs, procedure for tenders, deadlines and related developments for "Erste Campus", the new headquarters of Erste Group in Vienna.

MEASURES TO PROMOTE WOMEN ON MANAGEMENT BOARDS, SUPERVISORY BOARDS AND IN MANAGING POSITIONS PURSUANT TO SECTION 243B AUSTRIAN COMMERCIAL CODE

Generally, Erste Group complies with the principle of equal treatment as of the first contact with a potential employee, during the entire period of employment and in some countries also after the active working life. Erste Group promotes equal opportunity and diversity ("Living and Promoting Diversity"), especially as regards gender, age and ethnicity.

Above all, the promotion of women and the work-life balance have a long tradition at Erste Group. The offers are diverse and take cultural differences in the different countries of Erste Group into account. Measures include flexible working hours and part-time work schemes as well as special support for employees during and after childcare leave such as the option of extending childcare leave, childcare leave for fathers, free childcare facilities, access to the internal job market and important news during childcare leave, seminars for women returning to work, etc.

The success of the measures implemented to date is shown by the steadily increasing share of women in management positions and bodies (e.g. supervisory board) over the past few years. The participation of women in management development programmes shows that this trend will not only continue in the future, but will become even stronger.

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

Principles applicable to the performance-linked components of the management board remuneration, criteria for the performance-linked components, and major changes versus the previous year

The total compensation of the management board is given in detail in the Notes. The compensation consists of a fixed basic salary, a performance-linked payment and other remuneration.

Performance-linked payments are limited to 200% of gross annual salary for the CEO, 300% of gross annual salary for management board members with responsibility for divisions and 100% of gross annual salary for other members of the management board. The criteria for the performance-linked component of the management board compensation in the financial year 2009 (payout 2010) were net profit and the result of a leadership appraisal. In addition, management board members with division responsibility must have met business targets set by the supervisory board.

The amounts actually paid out are presented in the table below and are based on the net profit achieved of EUR 903 million (target: EUR 1,150 million) and the division target achievement, taking into account the results of the leadership appraisal.

Since the financial year 2010, the compensation criteria for the variable salary components have been extended. Apart from net profit, the criteria for the performance-linked payments include the increase in the core tier 1 ratio in relation to total risk and adjusted for participation capital, the NPL coverage ratio, the cost/income ratio and the result of the leadership appraisal (short-term incentive). Moreover, as of 1 January 2010, a long-term incentive programme was introduced. It is based on changes in the share price of Erste Group Bank AG compared to a group of peers and the Dow Jones Euro Stoxx Banks, with payout being exclusively in shares after a vesting period.

Principles of the pension scheme for management board members

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

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

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

Directors and officers insurance

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

Remuneration of the management board members

in EUR thousand	Salary for the FY 2010	Performance-linked cash compensation for the FY 2009	Other compensation for the FY 2010	Total FY 2010
Management board member				
Andreas Treichl	1,050	1.297	448	2,795
Franz Hochstrasser	570	925	144	1,638
Bernhard Spalt	570	405	60	1,035
Herbert Juranek	570	405	60	1,035
Manfred Wimmer	570	365	158	1,093
Martin Škopek	326	0	53	379
Johannes Leobacher †	466	289	98	853

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

in EUR thousand	Meeting fees for 2010	Supervisory board compensation for 2009	Total
Supervisory board member			
Heinz Kessler	18.5	50.0	68.5
Georg Winckler	13.5	37.5	51.0
Theresa Jordis	14.0	37.5	51.5
Bettina Breiteneder	12.0	25.0	37.0
Elisabeth Gürtler	3.0	25.0	28.0
Jan Homan	4.0	25.0	29.0
Wilhelm Rasinger	13.5	25.0	38.5
Friedrich Rödler	17.5	25.0	42.5
Werner Tessmar-Pfohl	5.0	25.0	30.0
Gabriele Zuna-Kratky	0.0	8.3	8.3
Brian Deveraux O´Neill	2.0	25.0	27.0
John James Stack	2.0	25.0	27.0
Juan Maria Nin Genova	3.0	16.7	19.7
Markus Haag	3.5		3.5
Christian Havelka	6.5		6.5
Friedrich Lackner	8.5		8.5
Andreas Lachs	11.0		11.0
Bertram Mach	8.0		8.0
Barbara Smrcka	5.5		5.5
Karin Zeisel	10.5		10.5

REPORT ON THE EXTERNAL EVALUATION

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

The next external evaluation is planned for the year 2012.

SHAREHOLDERS' RIGHTS

Voting rights

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

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

Dividend rights

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

Liquidation proceeds

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

Subscription rights

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

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

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

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

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

Vienna, 1 March 2011

Management Board

Andreas Treichl mp
Chairman

Franz Hochstrasser mp
Vice Chairman

Herbert Juranek mp
Member

Gernot Mittendorfer mp
Member

Martin Škopek mp
Member

Bernhard Spalt mp
Member

Manfred Wimmer mp
Member

ADDITIONAL CORPORATE GOVERNANCE PRINCIPLES

Compliance

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

Directors' dealings

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

Transparency

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

Risk management

Erste Group's approach to risk management seeks to achieve the best balance between risks and returns for earning a sustained high return on equity. A detailed report on risk policy, risk management strategy and organisation, as well as a thorough discussion of the individual risk categories, are found in the Notes beginning on page 130. In addition, credit risk is analysed in detail in a separate section starting on page 49, in the "Segments" section of this report.

Accounting and auditors

The company financial statements, company management report, consolidated financial statements and group management report of Erste Group Bank AG for the financial year 2010 were audited by Sparkassen-Prüfungsverband as the legally mandated auditor and by Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H., appointed by the annual general meeting as the supplementary auditor.

FINANCIAL CALENDAR

Date	Event
28 April 2011	Q1 2011 results
12 May 2011	Annual general meeting
16 May 2011	Dividend record date
17 May 2011	Ex-dividend day
19 May 2011	Dividend payment day
26 May 2011	Dividend payment day – Participation Capital
29 July 2011	H1 2011 results
28 October 2011	Q3 2011 results

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

Corporate Social Responsibility

INTRODUCTION

As one of the leading banks in Central and Eastern Europe, Erste Group is confronted with the concerns and expectations of its diverse stakeholders. Customers, suppliers, investors, employees, regulatory authorities and local communities are all affected by Erste Group's business operations.

Corporate social responsibility (CSR) is about evaluating and considering external views when reaching decisions. This process is a key element of responsible corporate conduct and helps Erste Group to deliver sustainable financial results.

The bank's efforts and achievements in this field are recognised in external sustainability and CSR ratings. Erste Group has been included in VÖNIX, the sustainability index of Vienna Stock Exchange, since its inception in 2008. In 2010, Erste Group shares were added to the ASPI Eurozone® index, which consists of the 120 best-rated companies in the euro zone selected by VIGEO, a CSR ratings agency.

CUSTOMERS

Erste Group strives to build up and to maintain long-term relationships with its customers. Customer satisfaction is of key importance to Erste Group. The bank is constantly working to improve its service quality and to tailor its product portfolio to the demands of customers. To provide better financial services to retail customers and small and medium-sized businesses − which are both core customer groups of the bank − is an important element of our customer relationship approach.

Retail customers

The goal of Erste Bank Oesterreich and the Austrian savings banks is to achieve quality leadership in Austria. Regular market surveys and direct communication with customers are proven means to this end. Therefore, the bank conducted the survey "Quality Check", which was designed to enable the bank to react swiftly to changes in customer satisfaction, in 2010 as well. The outcome was encouraging. Customers gave excellent grades to the quality of information and showed greater satisfaction with Erste Bank Oesterreich than with its industry peers.

Besides market surveys, Erste Bank Oesterreich also conducted extensive mystery shopping in 2010. The purpose was to gain an insight into customers' experience at the bank's branches such as attention towards individual needs and the competence of account managers.

In 2010, Erste Bank Oesterreich enlarged its scope of services for customers from specific ethnic groups. Information on its most popular retail products and services are now available in various languages. An increasing number of branches are starting to offer the bank's services in the respective native languages of customers from former Yugoslavia and Turkey. These two groups jointly account for almost 50% of all immigrants in Vienna. Erste Bank Oesterreich's multilingual approach is a major contribution to integration.

Erste Bank Oesterreich established a new social banking unit to coordinate all activities relating to social issues and businesses. The bank offers a variety of services, ranging from assistance for setting up new social enterprises, obtaining financing for educational and training measures to cooperation in social initiatives of public organizations and NGOs. Erste Bank Oesterreich also supports the activities of good.bee and Zweite Sparkasse in Austria.

Erste Bank Hungary continued its work to make its branches accessible to disabled people. An increasing number of sites were modified to create easy access and unblocked routes for wheelchairs. In 2010, the bank increased the number of branches equipped to serve deaf or hearing-impaired customers.

Erste Bank Serbia supported a government-initiated scheme to promote local currency cash loans. Borrowers benefit from interest rates subsidized by the government. The bank also introduced a scholarship loan designed to meet the specific financing requirements of students, with repayments starting after completion of studies.

Supporting customers in financial difficulties

In line with its goal to be a reliable long-term financial partner Erste Group continued to support its customers throughout the economic challenges of 2010. The programme "Helping Hands", which was initiated in 2009, was prolonged. In all of Erste Group's countries, measures to assist customers in coping with unemployment or deterioration in their personal financial situation were extended. This included not only continued access to financial services but also the offer of individual assistance, where required.

One of the measures offered was the initiative of Erste Bank Oesterreich and Caritas Oesterreich to improve the chances of unemployed persons on the labour market. The initiative comprises training schemes to acquire additional professional qualifications. In addition, the bank waived fees on current accounts and made individual financial coaching and debt counselling available.

As one of the first banks in the Hungarian market, Erste Bank Hungary relaxed payment terms for customers in financial distress. The bank offered tailor-made solutions to clients who encountered financial problems through no fault of their own. If economically feasible, loan terms were extended or a temporary suspension of loan repayments was granted.

Erste Group's Romanian subsidiary BCR identified customers affected by the severe floods and proactively offered to amend terms of existing loans. BCR agreed to temporarily decrease loan repayments and in exceptional cases granted a six month grace period for borrowers. In addition, BCR implemented a direct debit facility allowing customers to donate to house rebuilding initiatives through BCR ATMs and alternative channels.

Slovenská sporiteľňa, Erste Group's unit in Slovakia, waived fees, such as early repayment penalties, or lowered loan repayments for flood victims. Furthermore, customers were not charged for early withdrawal of deposits if this was done to cover flood-related damage.

Small and medium-sized companies (SME)

Small and medium sized companies are one of the core customer groups of Erste Group. These clients frequently focus on domestic markets, but at the same time are often highly competitive in a regional or even international context.

In 2010, SME customers continued to profit from an agreement of Erste Group with the European Investment Bank (EIB). The EIB provided financing totalling EUR 440 million to SMEs in Central and Eastern Europe via four subsidiaries of Erste Group – Česká spořitelna, Erste Bank Oesterreich, Erste Bank Hungary and Immorent. Facilitating access to medium and long-term financing at advantageous financial terms helped to cushion the impact of the recent global downturn.

99.6% of all registered companies in Austria are categorised as small and medium sized companies. Due to their capacity for innovation and flexibility, SMEs have consistently proved to be an important economic factor. Erste Bank Oesterreich supported SME customers by keeping credit lines open in economically challenging times and thus ensuring liquidity and capacity to invest if required.

Special schemes targeting established SMEs as well as start-ups were put in place. Within the framework of *s Oesterreich Initiative* Erste Bank Oesterreich client representatives advised SMEs together with external specialists from various subsidizing agencies. EUR 3 billion of loans were provided to SME customers in 2010 – the majority thereof investment loans. The *GO! GründerCenter* registered more than 1,000 consultations with people making the switch to self-employment, frequently resulting in the granting of a start-up loan.

For the second year in a row, Erste Bank Serbia in cooperation with European Union and national political institutions was involved in marketing the European Week of Small and Medium Sized Enterprises. The main focus of the SME week was on providing education and information as well as on boosting entrepreneurship. In addition, Erste Bank Serbia also took part in a government programme which, through the disbursement of subsidised loans, supported the revival of the overall economy.

Ethical investing

Sustainable investment is one of the core competences of Erste Sparinvest KAG, Erste Group's Austrian fund management arm. An increasing number of customers are prepared to consider sustainability as an additional investment criterion, resulting in rising ethical investment volumes. Assets under management reached EUR 1.3 billion in 2010, an increase of 15% compared to 2009.

In 2010, Sparinvest's sustainability specialists managed nine investment funds plus several externally mandated portfolios. The managed mutual funds comprised two bond funds, four regional stock funds as well as a micro-finance fund of funds and two theme funds for climate protection and the environment (the latter two funds are managed in cooperation with WWF Austria).

Espa Vinis Stock Global, which was short-listed as one of the best global sustainability funds in Austria, Germany and Switzerland by the German consultant Feri remained the flagship product. In addition, Espa Vinis Microfinance, a new fund supporting global microcredit lending mostly to single debtors in emerging markets was launched in 2010.

Erste Sparinvest was also the first major Austrian investment fund company to adopt the Principles of Responsible Investment (PRI). This once again underscored the commitment of the company to sustainable investment.

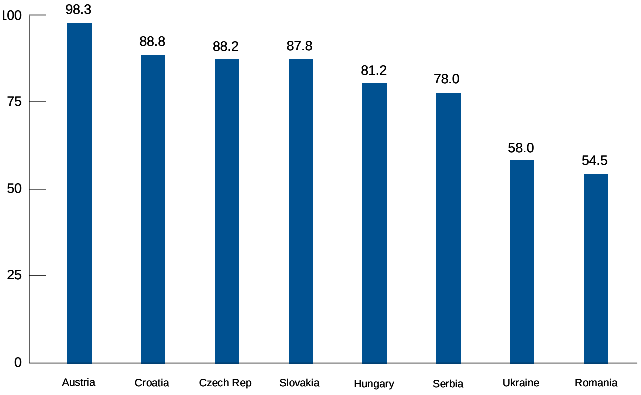
Financial inclusion

One of the main reasons behind the foundation of Erste Group in 1819 was to make simple banking services available to the unbanked part of the population. For a variety of reasons some sections of the population still do not have access to financial services by commercial banks. Financial inclusion of socially and economically disadvantaged people therefore continues to play an important role in social integration and in supporting economic development.

good.bee Holding (good.bee), the community development venture of Erste Group Bank AG (60%) and Erste Foundation (40%), was launched to address the financial exclusion issue in Central- and Eastern Europe. More than 35 million people in Erste Group's markets still have no banking relationship.

In 2010, good.bee intensified its efforts to supply suitable financial solutions to people without any prior access to banking services. But good.bee's activities are not limited to microbanking. It also finances social enterprise, i.e, catering for the financial needs of the social sector.

Persons (15+ years) with bank account (2010) in %



Source: GfK FMDS 2010, Erste Group

Good.bee activities

Romania, a country where according to statistics more than 8 million people are still unbanked, remained firmly on good.bee's agenda in 2010.

good.bee Credit, the entity responsible for microfinance activities, in partnership with the Center for Economic Development Foundation, a well regarded local microfinance organisation, provided microloans in the rural regions of Romania. In most cases borrowers are small farmers and other agricultural microbusinesses. At year-end 2010, the total credit portfolio of good.bee Credit was EUR 5 million compared to EUR 1 million at the end of 2009. Good.bee Credit's activities were not limited to financing only. In parallel, basic financial education schemes were implemented.

good.bee Mobile Transactions is good.bee's micropayments operation. Customers can open current accounts and receive debit cards (both issued by BCR), distributed through an independent sales network. In addition, customers can send and receive payments via mobile phone technology, with no need to visit a branch.

Social enterprise finance

The social sector tends to be underbanked. While a wide variety of products and financing options are available for commercial companies, specific requirements of social businesses are often ignored in product development. Through Erste Group's CEE banking subsidiaries, good.bee is involved in structuring tailor-made products often with the support of the respective local banks in order to enable entrepreneurs to create and operate social businesses and to build a cross-border social enterprise network.

In 2010, good.bee, in cooperation with local support networks, offered training for social entrepreneurs, helping them to acquire the knowledge and skills to become successful in their ventures. As a result of this, the first social enterprises were financed in Austria.

Furthermore, good.bee joined forces with complementary private and public sector partners in order to promote the idea of social entrepreneurship and social business. One example was The Social Business Tour 2010. Participants in six cities in Central and Eastern Europe (Vienna, Bratislava, Budapest, Prague, Belgrade, and Bucharest) discussed ideas and strategies to help solve social problems endemic in the region.

In parallel, a Social Business Idea contest was organized to search for the best social business ideas. The winning project in 2010 was "Overknit your Pension". This particular social business idea targeted women pensioners with knitting skills and aimed at fighting poverty and social exclusion amongst elderly women in Slovakia.

CIVIL SOCIETY

Erste Group has a long history of making contributions to society through donations of both time and money. Erste Group's commitment is not limited to financial donations, donations in-kind or matched-giving but also involves volunteering. Employees are encouraged to engage in and for local communities. Through its sponsoring activities Erste Group aims to pass on part of the profits derived from doing business in Central and Eastern Europe to the people of this region. The Added Value sponsoring programme consolidates all these activities across the group and aims to underline the bank's commitment to social responsibility.

Social activities

One of Erste Group's long-term partners is Caritas. In 2010, among other projects, the bank supported the annual Eastern Europe campaign on behalf of children in Europe's poorest countries, the National Help Campaign to combat poverty in Austria, and the 2010 relief action for the earthquake victims in Haiti.

Erste Group regularly backs special projects of Caritas Vienna and Caritas Austria like youngCaritas.at. This particular project allows 15 to 24 year old volunteers to experience the work of Caritas for a defined time and to assist in its social work e.g. with homeless or elderly people and migrants in Vienna.

Since 2003, *Oesterreichisches Hilfswerk*, a large Austrian service provider focusing on individuals in need, primarily children and retirees, has been a major partner of several Erste Group companies. s Bausparkasse, Erste Bank Oesterreich and the saving banks all supported the annual Hilfswerk initiative *Kinder fördern. Eltern helfen (Support children. Help parents.)* giving advice in child care, child benefits and child security.

BCR Hopes − a long-term project developed with *Save the Children Romania* and *Romani CRISS* (a non-governmental organisation combating Roma discrimination) − aims to promote talented children that face financial hardship. In 2010, ten children received financial support and started musical training with well-known Romanian musicians.

In addition, BCR initiated a flood support campaign engaging employees, customers and partners. Financial donations were distributed to flood victims through well-known NGOs like the Red Cross, Save the Children and Habitat for Humanity.

Nadácia Slovenskej sporiteľne (Slovenská sporiteľňa's foundation) also focused its activities on supporting flood victims. It made funds available to municipalities, which were earmarked for the restoration of public property. Additional donations were channelled to families most heavily affected by floods through the People in Peril association.

Česká spořitelna initiated "Catch your dream", a project for young people aged 11-21 years. Interested teams registered their dreams at the dedicated www.dreamcatcher.cz portal. Winning teams – as selected by public vote and a DreamTeam comprised of known cultural, sports, and social personalities – have to work in the non-profit sector to earn their dream. The project encourages interested young people to present their projects, and guides them towards team cooperation, responsibility and, last but not least, charitable work.

In 2010, Erste Bank Croatia joined the humanitarian campaign *Step into Life*, launched by a Rotary Club in Zagreb. The programme provides scholarships to young people raised in children's homes and foster families who want to obtain a university education. The bank has awarded a total of three scholarships, guaranteeing monthly payments for a period of 5 years, i.e. supporting the students during their entire studies.

Arts and culture

Since 1989, Erste Group has annually commissioned original compositions through an award granted to a young Austrian composer. A partnership with *Klangforum Wien* and *Wien Modern* guarantees at least three public performances of the chosen work. Further public attention for the prize-winning composer is ensured by releasing a CD. Joanna Wozny won this prize in 2010.

Secession, the oldest independent exhibition venue worldwide dedicated exclusively to contemporary art, and Erste Group have been cooperating for many years. "To Every Time its Art, to Art its Freedom" – the programmatic ideal of the founders of Secession is also an obligation for Erste Group´s engagement in the arts. Accordingly, an art mediation and presentation programme open to employees and customers was set up together with Secession, while special guided tours, pre-openings, visits of ateliers, architectural tours and more are offered on a regular basis.

Erste Group has been the main sponsor of *Viennafair*, an International Contemporary Art Fair with a focus on Central and Eastern Europe since 2005. Erste Group has been subsidising the participation of East European art galleries. 120 galleries from 20 different countries exhibited in 2010, almost a quarter thereof received support from Erste Group.

Within a long standing partnership, Erste Group continued to support the *Atelier Top 22* programme of the *Unabhängiges Literaturhaus Niederösterreich*. The project gives authors from Central and Eastern Europe an opportunity to spend two months in Krems. For every writer a evening with reading and discussion is staged – in December 2010 *Atelier Top 22* welcomed the 100th guest.

Erste Bank Oesterreich has acted as a main sponsor for *Viennale* for the seventh time in 2010. The *Viennale* is Austria's most important international film event, as well as one of the oldest and best-known festivals in the German-speaking world. Customers of Erste Bank Oesterreich benefited directly via reduced ticket prices.

Slovenská sporiteľňa not only continued its patronage of regional theatres but also cooperated with socially inclusive performance groups. The long-term cooperation with theatres in Nitra, Martin and Prešov, as well as with *Radošinské naivné divadlo (Radošina Naive Theatre)* contributed to the development of culture outside of the Slovak capital Bratislava. In addition, Nadácia Slovenskej sporiteľne supported the only Slovak theatre working with handicapped people and *Divadlo z Pasáže*, a community theatre.

Erste Bank Hungary organised for the first time the Erste-AMADEUS creative scholarship programme in collaboration with the art faculty of a Hungarian university. In 2010, young artists submitted nearly 120 works of art; 12 young artists subsequently received awards. Erste Bank Hungary remained strategic sponsor of *Művészetek Palotája (Palace of Arts)*, a centre for arts recognised and acclaimed both in Hungary and internationally.

Over the past year, Erste Bank Serbia endeavoured to support more than 50 projects and initiatives, usually realised with a series of local partners. Examples are cultural projects within *Centrifuga* including a competition for young talents.

Education

Erste Group has continued to work closely with universities and other educational institutions. The intention is to reach out to high-performing students during their education with a view to potential future recruitment.

In 2010, Erste Group sponsored the high potential network *Students4Excellence* which offers internships, mentoring and events with top management to selected students. It is planned to implement the programme in four CEE countries in 2011.

For the fourth time in a row Erste Group, together with Erste Foundation, exclusively supported the Balkan Case Challenge (BCC), an annual international case study competition and recruitment event focusing on South-Eastern Europe.

In its 10^{th} year, almost 60 students from eight countries (Austria, Croatia, Romania, Serbia, Slovakia, Czech Republic, Hungary and Ukraine) participated in last year's Erste Group Summer University Danubia which was organised together with Vienna University of Economics and Business. Students with advanced know-how in personnel management or finance attended lectures and workshops of the Summer University programme in five CEE countries.

Support of educational activities is by no means limited to higher education. Safe Internet, a project of Česká spořitelna in cooperation with Microsoft and Seznam.cz (the leading internet search engine in the Czech Republic), supported by the Czech Police's bezpecny-internet.cz website was developed with the intention of reducing internet crime. The website informs internet users about the most common risks such as virus attacks, phishing e-mails or fraudulent offers and explains how to avoid becoming a victim of internet crime. The portal will be regularly updated with the latest internet security advice.

Financial Literacy

In economically challenging times it becomes more and more evident how important financial literacy of individuals is to the long-term wellbeing of communities.

Initiatives to increase the understanding of finances are well aligned with Erste Group's savings bank tradition. In general, the underlying concept of all measures is to empower individuals to make informed decisions about the management of their money.

Financial education starts at an early age. Erste Bank Oesterreich, as a patron of ZOOM children's museum in Vienna, sponsored an exhibition named "Cash, Dosh, Dough" which explained the basics of money and finance to 6-12 year olds. Going forward the exhibition will also be shown in Styria and in CEE.

According to statistics a high percentage of people requiring financial counselling due to excessive indebtedness finished school with minimum qualifications. To tackle the issue of overspending, apprentices are targeted by a newly started programme of Zweite Sparkasse together with Viennese debt counselling institutions. The idea is to educate first-time earners to prevent excessive indebtedness at an early stage.

Česká spořitelna established *Moneymanie.cz*, a new educational portal for students, teachers and parents that provides information about finance and banking products.

Activities of Nadácia Slovenskej sporiteľne concentrated on the gradual improvement of secondary school pupils' financial literacy. Almost 6,000 students from 140 schools have successfully completed the educational project *Know your money*.

Erste Bank Hungary set up a special homepage and blog where branch managers held presentations on basic financial matters for elementary and high schools.

Personal Finance is a financial literacy programme developed in partnership with Junior Achievement Romania. 5,102 high school students participated in the award winning programme, with 300 BCR volunteers lecturing on financial education.

To increase financial literacy in the country, Erste Bank Ukraine introduced several projects targeting existing customers, media as well as young Ukrainians.

Sport

Erste Group views sport sponsorship as an opportunity to connect with customers and colleagues in the communities rather than as an investment to sustain or grow its business. For many years, Erste Group has worked in partnership with athletes, sports clubs and sport event organizers.

Erste Bank Oesterreich has a special focus on developing youth, health, local and regional communities and providing added value for its customers. Together with the Austrian saving banks, Erste Bank Oesterreich continued to support football and volleyball student leagues in 2010. It is the longest running partnership of its kind in Austria – more than 1,000 schools have been participating in the programme in its 30-year plus history.

Erste Bank Oesterreich has a longstanding commitment to sponsor running events. The biggest running initiative of Austria, Erste Bank Sparkasse Running covered over 200 events throughout the country in 2010. Erste Bank Oesterreich again supported the Vienna City Marathon 2010, the largest running event in Austria with more than 30,000 participants. In addition, the bank sponsored the Erste Bank Vienna Night Run, a charity run, for the third time. In line with the overall idea to promote youth, the kidsrun4kids series, in which more than 20,000 elementary school pupils took part in ten runs, was also supported.

Since 2003, Erste Bank Oesterreich has been the main sponsor and partner of *Erste Bank Eishockey Liga*, the highest-level ice hockey league in Austria, and of the Austrian Ice Hockey National Team. Public interest in the sport has increased: more than 1 million viewers attended ice hockey games in Austria in the 2009/10 season, an increase of about 10% on the previous year.

Corporate volunteering

Volunteering programmes are a key element within Erste Group's concept of corporate social responsibility. Employees are encouraged and empowered to provide voluntary services to local communities in all countries of operation.

After the floods in the summer of 2010, a team of BCR volunteers built houses for flood victims on one of Habitat for Humanity’s construction sites. In just three days, the volunteers managed to build four houses.

Česká spořitelna extended its Grant Programme in 2010. Employees could nominate a non-profit organisation within defined strategic areas, such as helping people in need like the elderly, the underprivileged or drug addicts, or fostering sustainable environmental development. CS staff voted for six projects to receive a one-off grant. Furthermore, employees participating in voluntary projects are entitled to two charity days, in which they continue to be paid by the bank but provide volunteering services to the community.

“72 hodin bez kompromisu/72 hours without a compromise” is an international project, which was organised by a group of young people in Slovakia for the first time in 2010. Almost 4,500 young people volunteered to work for free in social, environmental or community projects. Slovenská sporiteľňa supported the pilot and is planning to continue to do so in the future.

STAFF

Erste Group strives towards being the employer of choice in Central- and Eastern Europe. The bank aims to attract employees committed to a long-term career with Erste Group by offering career development opportunities within a strong organisation that is governed by sound values.

To support this as well as to safe-guard high quality customer service and appropriate risk management, Erste Group takes a structured approach to business training and education designed to grow business competences as well as to develop leadership skills.

The roll-out of a common career model (expert and management career paths) for Erste Group was continued. Know-how, personal and social requirements for each career step were defined, corresponding standardised training was made available.

As part of its positioning as an attractive employer, a group-wide cross-border internal job market was established in October 2010 to encourage and facilitate mobility within the group. Since then employees can track career opportunities in the internal job market and get support in their personal development. The process guarantees fairness and transparency in the advancement of individual employees. Erste Group's mobility policy aims at setting up common standards for issues such as salary and benefits.

Since 2007, Erste Group has been running a group-wide Talent Career Management (TCM) process to identify, develop and retain employees who demonstrate both high performance and high potential for further career growth. Participants are offered special international development programmes and career support. The Group Leadership Development Program (GLDP), as one example of the TCM development programmes supports improved identification of leadership talent and its further development in line with Erste Group's leadership competency model. In 2010, the second GLDP class went through the development modules and started the international job rotation phase.

An improved systematic process to identify, develop and retain potential successors for strategic key positions across Erste Group was launched in 2010 and will be executed in 2011. The theme behind these changes is “A leading bank needs leading people”.

The popular and highly successful Erste Group Junior Trainee Programme started with the third group of trainees. The programme is designed to teach fundamental knowledge in risk management, corporate banking, treasury, investment banking and real estate. After one year of intensive on-the-job-training as well as classroom education, the programme ends with an exam, a project presentation and a final hearing. So far, 66 trainees from all Erste Group countries have successfully finished the trainee programme. The current 25 trainees also benefit from a co-operation with University of Vienna, which features a reduction in time and fees for further academic studies, for those successfully passing the trainee programme.

In close co-operation with the respective business lines, specific colleges focusing on risk management, trading, investment banking, corporate and private banking as well as controlling were offered. The purpose of the business colleges is to provide expert knowledge and a homogeneous understanding of standards and processes within Erste Group at fundamental, advanced, and excellence levels.

An additional important tool underpinning Erste Group's HR programme is performance management which aligns individual targets for employees with the bank's goals in order to improve overall performance. The concept unites business performance and competency performance criteria; each individual employee's behaviour is measured against certain competency criteria. The regular Employee Appraisal Dialogue (EAD) is one of the central performance management tools available to managers and employees.

The 360° leadership feedback was further enhanced in 2010. To support group-wide leadership development, Erste Group implemented a multi-source feedback project. Each evaluee received structured input from their working environment superior(s), peers, and subordinates.

One of the main HR goals in 2010 was to develop the new group-wide compensation policy for Erste Group's senior management. It respects FSB (Financial Stability Board) principles which were in place at that time and anticipates the Capital Requirements Directive which came into force in Austria early December 2010. The major elements of the compensation policy are the following: a minimum profitability of Erste Group, which is defined as the ability to pay dividends as well as interest on participation capital, is a precondition for any bonus payout. Variable compensation is subject to fulfilment of group and individual targets, and balancing key performance indicators (KPIs) which take the risk profile as well as the capital requirement into consideration. Parameters are both quantitative as well as qualitative. The major part of variable compensation (2/3) is deferred. Any malus awarded for losses at group or divisional level, for personal misconduct, for breaches of risk rules and for missing performance targets in the following years might wipe out the deferred portion completely. The model will be fine-tuned in 2011 as soon as all regulations in Erste Group's EU countries are implemented.

Health care remained a key concern for Erste Group employees in 2010. In the last quarter, the bank's central health centre started an evaluation of health measures and initiatives in all countries. To improve the overall service and intensify the cooperation of all health care personnel a common group wide strategy will be implemented. Local needs and national differences in health care will be considered.

Erste School of Banking and Finance aligns the group wide training and education activities. Its mission is to increase the potential of every individual employee at every level, and to advance the bank as a whole by enhancing skills, by encouraging the sharing of ideas and by providing opportunities for personal development.

"Learn. Reflect. Exchange. Network" is the motto of a series of lectures open to all interested employees that is organised by Erste School of Banking and Finance in co-operation various business lines. In 2010, 19 summer lectures were organised; speakers included board members as well as renowned external experts. More than 1,000 attendees were discussing topics of broad interest from banking and beyond. The success of these lectures has lead to a monthly series in Vienna and to further lectures in all Erste Group countries over the year.

Key staff indicators – (Austria, ex savings banks)

	2010	2009	2008
Employee turnover	4.8%	4.4%	5.1%
Sick days per year	7.8	7.6	6.8
Training days per year	2.5	2.9	3.2
Women in management positions	26.7%	25.4%	24.4%
Share of part-time staff	25.3%	23.6%	21.6%
Share of female part-time staff	79.8%	83.4%	84.9%

Whereas the financial sector worldwide widely used redundancies as a common crisis management tool since 2007, Erste Group implemented a group-wide programme with a view to avoid employee layoffs for economic reasons. The bank developed efficiency measures, optimised processes and systems and increased productivity. But the combination of modest growth forecasts and expected fiercer competition among banks finally made changes in staff count necessary to remain competitive.

In 2010, Erste Bank Hungary announced plans to lay off 250 employees as part of a collective redundancy. Due to intensified cost-efficiency efforts, eventually 193 employees were made redundant. Česká spořitelna reduced the number of board members from seven to five, in the first quarter 2011 a headcount reduction will follow. The bank announced 550 redundancies, both in headquarters and branches, which represents a 5% reduction of staff. An outplacement programme and a fair compensation model will be set-up for the affected employees.

In Austria, 239 employees participated in 2010 in voluntary cost saving measures such as sabbaticals, sliding scale pensions or part time jobs.

Activities by Erste Group's subsidiaries

Erste Group Oesterreich continued to prioritise training and education of financial advisors and account managers to maintain and enhance the quality of customer service. The focus for newly recruited staff and existing employees was on training hands-on specialist banking knowledge and individual development.

Regular employee surveys continued to check employee engagement and satisfaction. Over the years, positive leadership remained the most powerful factor influencing motivation. Erste Bank Oesterreich incorporated this principle in its training programmes under the assumption that employees, who enjoy their work are more efficient and generate better results.

1,200 employees of Erste Bank Oesterreich and Erste Group Bank AG (the holding entity) participated in the preventive health check with special emphasis on early recognition of risk factors for cardio-vascular diseases. Extensive lifestyle consultation and balanced diet counselling complemented the health check. In addition, special screenings and check-ups such as early recognition of smokers' lung or melanoma screening were offered.

Erste Group's health centre is not only addressing potential physical health problems ranging from accidental injury to cardiovascular disease but also mental health problems. An increasing number of managers and employees took up the offer for work psychology counselling which was first introduced 3 years ago.

Stress management and burn-out prevention remained on the agenda. Training for management and employees aiming at early recognition and relaxation techniques were made available.

While according to official statistics 10% of all sick days in Austria were related to mental health problems (e.g. psychological distress, burnout, and depression), the corresponding figure for Holding employees was 5%, for Erste Bank Oesterreich 6%.

At Romanian subsidiary BCR, an external consultancy company organised the second run of the employee opinion survey, with almost three quarters of the employee base participating. The results of the 2010 survey indicated that the employees' overall satisfaction improved compared to the first study and again is clearly above the Romanian average. According to the survey, BCR employees showed a high level of loyalty. BCR was perceived as one of the best companies in the banking industry and as promoting high standards in business conduct.

Within the framework of the BCR Star Awards employee recognition scheme, prizes were awarded for the first time in 2010. BCR employees were invited to nominate colleagues who made meaningful contributions to the respective team or the business in general and inspired others. 45 final award winners were selected from 500 nominees.

Furthermore BCR encouraged employees to contribute to the ongoing improvement of customer service. In May 2010, BCR Progress – a permanent idea scheme that is open to all employees – was launched; in the first months of its existence, 530 ideas were registered. Ten percent of those ideas were selected, discussed with the process owners and approved for implementation.

In line with Erste Group's policy, Erste Bank Croatia invested into education, improvement of working conditions and employee health. For example, every employee had access to a systematic health check-up and a number of other preventive measures such as vaccination against the seasonal flu.

To improve the organisational culture, Erste Bank Serbia continued the promotion of corporate values. In 2010, the bank nominated value ambassadors – employees who best represent values in their work attitude, communication style, and cooperation with colleagues. Employee education, in line with the overall strategy of Erste Group was continued. More than 700 employees took part in courses aiming at increasing productivity and at enhancing the overall service quality.

At Slovenská sporiteľňa employees had access to training to improve their professional skills but also to grow on a personal level. As in other countries, special health care benefits were introduced. In addition, a Children´s Day was introduced in 2010. Children of head office employees were invited to spend half a day at the work place of their parents and to learn more about their profession.

ENVIRONMENT

Erste Group intensified and streamlined its environmental efforts in 2010 by setting up an environmental policy and corresponding guidelines. Special emphasis was put on efforts to continuously reduce the environmental impact of direct and indirect activities of the bank and to assume social responsibility both internally and externally. To make a noticeable difference, raising awareness for environmental topics with employees, customers and investors alike is crucial.

Environmental issues and sustainable environmental protection will be integrated more effectively into Erste Group's core business operations. As a first step, a group-wide strategy was developed by the environmental management team with the supported of employees of various divisions and sponsored by the Board. The team's function is to ensure that staff are actively included in environmental initiatives by providing information, engaging in communication and actively encouraging to integrate environmental considerations into the day-to-day business.

Erste Group's environmental policy defined a core objective and two organisational measures as the main pillars:

a) Reducing carbon emissions by 15% in 3 years in cooperation with the WWF Climate Group
b) Appointment of an Environmental Manager
c) Implementation of Environment Management System ISO 14001, the international environmental management standard.

Medium-term priorities in terms of policy implementation will focus on the following areas:

_ **Climate change & energy: improvement of energy efficiency in all business locations and branches, alignment of vehicle fleet management with environmental protection and ecological principles, reduction of business trips, increased use of renewable energy.**

- **Ecological construction: integration of sustainability standards in existing and newly built offices and business sites.**
- **Sustainable supply chain: updated purchase guidelines incorporating social and ecological criteria and minimum requirements for suppliers.**
- **Green IT: introduction of an efficiency measuring system for energy management, energy and resource efficient software solutions, implementation of internal standards for sustainable hardware purchases, resource efficient re-design of the data centre, continuous optimisation of IT processes.**
- **Resource & waste management: establishment of electronic document management, optimisation of the internal waste separation system, waste management information and training of employees.**
- **Sustainable business practices: draft sustainable financing and investment criteria, policies for lending to socially and environmentally sensitive sectors, participation in international treaties.**
- **Product development: focus on sustainability.**
- **Environmental sponsoring: selection of projects related to Erste Group's core business and regional focus.**

In line with the overall group policy various projects were carried out in all Erste Group markets.

The effects of banking operations on the natural environment in Austria were quantified according to the GRI standards (Global Reporting Initiative) and the Greenhouse Gas Protocol of the World Business Council for Sustainable Development (WBCSD).

The environmental data for 2010 (energy, water and waste, mobility data and paper consumption) referred to the business sites of Erste Bank Oesterreich, Erste Group Bank and to individual subsidiaries and comprised 4,450 employees.

Key environmental indicators *

	2010	2009	2008
Flight distance (km per employee)	1,857	2,174	2,803
CO_2-emmissions (tonnes per employee)	1.8	1.9	2.2
Water consumption (m^3 per employee)	10.0	6.0	*
Copy paper consumption per employee	48.8	41.4	42.6
Recycling ratio (%)	72.6	70.5	*
Electricity consumption (kWh per employee)	3,871	4,322	5,133
Heat energy consumption (kWh per employee)	88.7	79.7	87.9
Waste (kg per employee)	273	206	*

*) Due to the reorganisation of data collection, no figures of comparison are available for 2008.
General note on this table: in case of availability of more accurate data, historic data was adjusted.
Data on water consumption 2009 is based on 1,304 employees.

CO_2 emissions per employee were reduced year-on-year by 8.33% to 1.76t/employee (calculated for Erste Bank Oesterreich and Holding). Considerable savings were achieved in electricity consumption. The success was attributable to internal activities to raise awareness among employees and to innovative IT features. However, the savings in electricity consumption (-13.4%) were nearly fully eroded by the higher heating costs due to the weather conditions. As the results for paper consumption and general waste output did not improve, these areas will be environmental key issues in 2011.

Key issues in 2010

New standards in mobility management: An upper limit of 130g CO_2 per kilometre for new acquisitions for the vehicle fleet was defined in the general procurement rules of the bank.

Smart Shut-down & Switch-on: The installation of new software programs to automate the turning on and shutting down of computers helped to substantially cut electricity consumption.

Participation in the resolution "Green Savings Bank Sector" of the European Association of Savings Banks (ESBG): Within the scope of the project, Sparkassen Objekt Management GmbH (sOM) coordinated for the first time the collection of environmental data for the entire savings bank sector in Austria.

In 2010, BCR's environmental activities continued to focus on the more efficient use of electricity, fuel and water, and on increasing awareness towards environmental issues e.g. through an environmental and social risk analysis course.

To reduce energy consumption, BCR started equipping 650 branches with LED signs instead of neon signs. BCR has been continuously expanding the range of paper-free solutions and services. The bank introduced a modern paper recycling system in all buildings of the Bucharest headquarters.

Erste Bank Croatia developed special environmental loan models (eco loans) for the retail and corporate segment. Examples for consumer eco loans are the funding of energy saving renovations or the usage of renewable energy for housing.

On the commercial side, special emphasis was put on the financing of wind farms, solar power and hydro-electric power plants. It is planned to develop new products and structured credit lines for the financing of investments in renewable energy sources and energy efficiency.

Practical measures of the bank included the usage of energy saving light bulbs in its facilities, LED-lit advertisements that significantly save energy and ozone-friendly air-conditioning units. Through regular maintenance the safe and efficient working condition of all devices was safeguarded, which contributed to their longevity and indirectly lowered environmental pollution.

During 2010, Erste Bank Serbia granted loans of EUR 5 million to renewable energy projects, such as two mini hydroelectric power plants with the total capacity of 4.6 MW in one of the most underdeveloped municipalities in Serbia. The bank ran numerous internal environmental initiatives: recycling office paper and toner cartridges, promotion of eco bags instead of plastic bags, printing of publications on paper certified by FSC (an independent, non-governmental, not-for-profit organization established to promote the responsible management of the world's forests) and use of energy-saving light bulbs at all bank facilities.

Erste Bank Hungary laid strong emphasis on increasing energy efficiency both in its headquarter and in the branch network. The bank's headquarters is now equipped with motion sensor lighting. The operation and optimum positioning of the elevators is programmed for energy efficiency. Heating and air conditioning systems work at night and weekends in energy-efficiency mode. In order to reduce paper consumption, the bank also implemented the option of cash withdrawal without printed receipts at its own ATMs and it is one of the objectives of the bank to switch to recyclable and environmentally friendly paper.

Erste Campus, the new group headquarters in Vienna on the site of the now defunct Südbahnhof railway station, will be a milestone for the environmental policy implementation. Sustainability, energy efficiency and economic viability were core criteria of the project; construction start is scheduled for the second half of 2011.

Erste Campus will accommodate all divisions and subsidiaries in Vienna on one site for the first time, thus significantly reducing travelling.

Environmental focus 2011

The new organisational unit Group Environmental Management will continue its efforts to integrate activities for environmental and ecological sustainability into the business practices of the entire Erste Group.

Key requirements for achieving the environmental targets include a more detailed collection of environmental data from the organisational units in Austria and in CEE.

The specific CO_2 footprint per employee will be again reduced substantially in 2011 by the switch to hydropower.

Increase energy efficiency: Optimisation in cooling, heating, and ventilation as well as the consistent avoidance of stand-by mode for technical equipment.

Raising internal awareness: One of the most effective measures will be information and training for employees. Special emphasis will be put on paper consumption and waste separation.

Erste Group Share

The shares of Erste Group Bank AG performed excellently in 2010, rising 34.8% despite continued high global stock market volatility. This performance was achieved on the back of the solid development of the Group's business as well as the general recovery in stock markets last year and despite the follow-on effects of the financial crisis such as the weakness of the euro.

DEVELOPMENT OF STOCK INDICES

Uncertainty fuels market volatility

In 2010, international stock markets were influenced by the aftermath of the US housing crisis that started in Q3 2007. Market participants focused their attention on government and central bank measures in addition to closely monitoring global economic trends, government debt and the weakening euro – which altogether led to increased volatility. Despite the solid performance in the fourth quarter, only a few of the major stock indices managed to close the year in positive territory.

The US Dow Jones Industrials Index rose 11% to 11,577.51 points in 2010. The broader Standard & Poor's 500 Index advanced 12.8% to 1,257.64 points. Portfolio switching from bonds to equities resulted in double-digit growth rates for the major US stock indices. In Europe, the performance was mixed due to the diverging investor sentiment. At a gain of 16.4%, Austria's ATX (Austrian Traded Index) beat the German DAX, which profited from positive economic indicators, by a narrow margin (+16.1%). The London Stock Exchange rose 9%. Some stock markets in the euro zone declined though: the Athens stock market lost 35%, Madrid 17%, Dublin 3% and Lisbon 4%.

Focus on government debt

The billions spent on bailout and economic stimulus packages by governments and central banks to keep the financial system from collapsing and to boost the economy caused deficits and overall debt levels to rise steeply in many of the countries where these were excessively high even before the crisis. The deterioration of the situation in Greece and the credit rating downgrades at a number of countries (Portugal, Ireland, and Spain) accelerated the decline of the euro versus the USD and other currencies. To fend off speculation against the euro and to safeguard the common currency, the EU member states agreed on the European Financial Stability Facility (EFSF) – a rescue package worth EUR 440 billion. In addition, governments announced fiscal tightening measures in order to consolidate budgets and restore public finances. The euro hit its year low in June when it dropped below 1.20 vs. the USD following a year high of 1.45 in mid-January. The single currency closed the year at 1.3272 vs. the USD in European trade. The euro's decline and the insecurity among investors drove the price of gold to a new record high of USD 1.424/troy ounce at the beginning of December.

Central banks continue expansive monetary policy

Investors closely monitored international austerity schemes and the effects of planned consolidation and debt-reducing measures on economic growth. Uncertainties over the pace of economic recovery and mixed economic indicators heightened concerns among investors and led to increased volatility on financial markets.

The information available for the US economy at year end still pointed to muted growth. In contrast business indicators and macroeconomic data in Europe, especially in Germany, indicated a steadily progressing economic recovery. The US Federal Reserve confirmed that it would likely keep key lending rates at exceptionally low levels for an extended period and that it would continue its policy of "quantitative easing" (purchasing US government bonds). The ECB (European Central Bank) revised its forecasts for economic growth for 2010 and 2011 slightly upwards, but nonetheless stood by its expansive monetary policy with unchanged low interest rates.

Banking stocks declined as a result of the Greek sovereign debt crisis, concerns over liquidity and European banks' access to funding. After the Stoxx Bank Index dropped by more than 20% in the first half of 2010, banking stocks recovered briefly in the third quarter when the ECB announced it was prolonging its policy of unlimited liquidity for the European banking sector until April 2011. Anxiety over the potential sovereign default of several euro zone member countries triggered another double-digit decline in the banking index in the fourth quarter. Additionally, sluggish earnings weighed on European banks. The Stoxx Bank Index, which tracks leading European banking stocks, was down 25.5% to 161.90 points last year.

ATX - best-performing European stock index

The Austrian stock market largely followed global markets last year. In the second quarter, the ATX slipped 13.5% along with the double-digit decline of international stock markets. Due to their heavy weighting in the index bank stocks were the primary contributors to this trend. However, rising stock prices in the third quarter – bolstered by the global stock market recovery and positive sentiment created by the reporting season in Austria – more than offset the previous decline of the ATX and the negative impact from a number of capital measures. In the fourth quarter, Austria's lead index surpassed all other major indices, gaining 14.3%, partly driven by elevated local buying interest ahead of the introduction of the new capital gains tax in Austria. This tax of 25% on investment gains will apply to all purchases as of 1 January 2011. The ATX (Austrian Traded Index) closed 2010 at the year high of 2,904.47 points, up 16.4%, substantially outperforming other European indices.

DEVELOPMENT OF THE ERSTE GROUP SHARE

Erste Group share outperforms European banking index and ATX in 2010

The Erste Group share was exposed to substantial volatility in 2010. Positive analysts' recommendations more than offset negative international effects in the first quarter. Nevertheless in the following quarter, the Erste Group share also declined significantly. The stock hit its year low on 7 June at EUR 25.10 following the general sell-off in banking stocks caused by the Greek sovereign debt crisis.

The decline nearly fully eroded the positive performance of the first quarter of 2010, but in the second half of the year, the Erste Group share rebounded. On the penultimate trading day of 2010, the stock climbed to its year high of EUR 35.59, an increase of 40.0% compared to the year-low.

Solid operating performance despite the harsh environment for banks as well as the upbeat sentiment spread by analysts after the Capital Market Day organized by Erste Group were decisive factors for this achievement. Based on the extensive information provided on the development of business of Erste Group, credit growth, the expected trend in risk costs and non-performing loans as well as on the effects of Basel III on the capital base and repayment of participation capital, most analysts confirmed their positive view of the Erste Group stock.

At year-end 2010, the Erste Group share stood at EUR 35.14, up 34.8% on the previous year-end, outperforming both the ATX (+16.4%) and the Stoxx Bank Index (-26.5%).

Turnover and market capitalisation

The number of outstanding shares rose from 377,925,086 by 251,635 to 378,176,721 at year-end 2010 due to the employee share ownership programme. As a result of an increased stock price, the market capitalisation of Erste Group improved in 2010 to EUR 13.3 billion versus EUR 9.8 billion at year-end 2009.

In 2010, turnover in Erste Group stocks went up along with the higher average turnover on the Vienna Stock Exchange. On average, daily turnover was EUR 60.8 million in 2010 versus EUR 53.5 million for 2009 or a rise of 14%. Daily turnover value on the Prague Stock Exchange (PSE) on which the Erste Group stock has been listed since October 2002 reached EUR 8.1 million. On the Bucharest Stock Exchange (BVB) on which the shares of Erste Group have been traded since 14 February 2008, average daily turnover value was EUR 168 thousand compared to EUR 185 thousand in the previous year.

Performance of the Erste Group share*

	Erste Group Share	ATX	DJ Euro Stoxx Bank Index
Since IPO (Dec 1997)	217.1%	122.6%	–
Since SPO (Sept 2000)	199.1%	148.6%	-54.1%
Since SPO (July 2002)	101.7%	138,1%	-35.7%
Since SPO (Jan 2006)	-21.9%	-25.5%	-57.4%
Since SPO (Nov 2009)	21.2%	11.5%	-29.1%
2010	34.8%	16.4%	-26.5%

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

DIVIDEND POLICY

Erste Group's dividend policy is to distribute between 20% and 25% of annual net profit as dividend to our shareholders. The management board will propose an increased dividend of EUR 0.70 per share to the general shareholders' meeting on 12 May 2011. This dividend policy permits Erste Group to reinvest most of the net profit, thereby strengthening the bank's equity base and allowing shareholders to participate in the future growth of the business.

Erste Group will retain its policy of paying a dividend contingent on the bank's profitability, growth prospects and its capital requirements.

INVESTOR RELATIONS

In 2010, Erste Group's management and the investor relations team met with investors at numerous one-on-one and group meetings. Erste Group presented its strategy in the context of the current operating environment at a series of road shows in Europe and the US, and at its quarterly earnings conference calls as well as international banking and investor conferences organised by UniCredit, Nomura, Cheuvreux, Wood, Morgan Stanley, ING, KBW, UBS, Deutsche Bank, Bank of America Merrill Lynch, Goldman Sachs, HSBC and Citigroup.

On 12 April, an internet chat with Erste Group's CEO was held for the tenth time. The chat was a chance for many retail investors and the broad public to communicate directly with the chairman of the management board, Andreas Treichl.

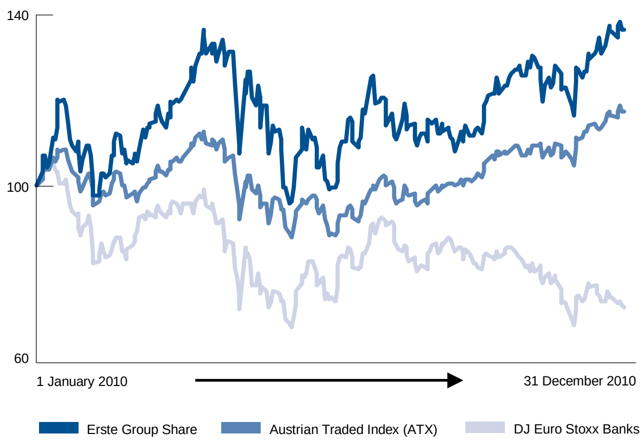
On 18 June, 251,635 new shares issued by Erste Group under the employee stock ownership programme (ESOP) started trading on the stock exchanges of Vienna, Prague, and Bucharest. This issue raised the number of Erste Group shares from 377,925,086 to 378,176,721.

On 4 October 2010, Erste Group held its 7th capital markets day in Dubrovnik, Croatia. The management board of Erste Group presented an overview of current developments in the various business areas in Austria and in Central and Eastern Europe. The presentations covered macroeconomic developments in the region and their impact on local banks. In addition, Erste Group's management gave an overview of the effects of the changed regulatory framework on business and balance sheet strategy.

In total, management board members and the investor relations team of Erste Group conducted 491 one-on-one or group meetings with international and Austrian investors in 2010 (2009: 544 meetings).

The strong interest in Erste Group was reflected by the numerous research reports that were published about the company. A total of 28 investment firms covered Erste Group, four of which initiated coverage in 2010.

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



Research reports on Erste Group

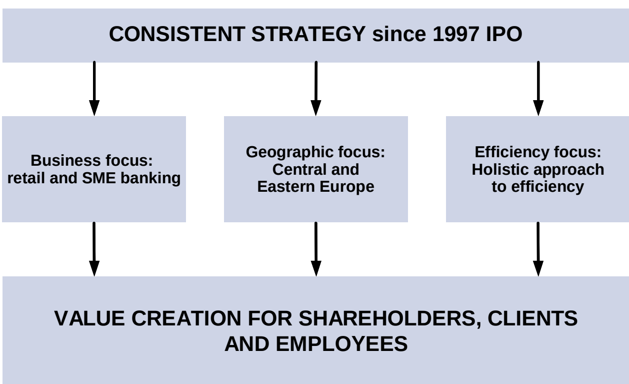
Atlantik Ft, Autonomous, Cheuvreux, Citigroup, Concorde, Credit Suisse, Cyrrus, Deutsche Bank, Evolution, Goldman Sachs, HSBC, ING, JP Morgan, KBC, KBW, Kepler, Macquarie, Mediobanca, Merrill Lynch, Morgan Stanley, Nomura, RCB, Standard & Poor's, Silkroute, SocGen, UBS, UniCredit, Wood

Strategy

Consistent strategy underpins our solid performance

We have consistently followed a real economy-focused business model since going public in 1997. This strategy has performed remarkably well through the financial and economic crisis of 2008 and 2009, which exposed the weaknesses of business models that strayed away from the traditional banking model. Bank strategies that were not built on lending responsibly (in terms of loan-to-value and debt service ratios) or that did not strike a reasonable balance between customer segments and geographies had to be adjusted; however, we significantly improved our operating performance and were thus able to comfortably absorb increasing default rates and higher risk costs. At the same time, we enhanced our capital position and improved our funding mix.

Erste Group's strategy rests on 3 pillars



The key elements of our strategy have been in place since the initial public offering in 1997. The fact that even during difficult economic times no material changes were required is testament to its quality in terms of sustainability and balance, and a key competitive advantage. Overall, our strategy continues to rest on three pillars: the business focus pillar identifies the development of our retail and SME banking operations as our key activity; the geographic focus pillar defines Central and Eastern Europe as our home market and the efficiency focus pillar links these two, by setting out the vision of operating as efficiently as possible. The efficiency pillar covers all aspects of the business, rather than being confined to organisational efficiency or cost management; in 2010 the main topics in this respect continued to be the efficient management of capital and liquidity resources in light of the discussion about the future direction of banking regulation and the management of the operating cost base in response to the slowly recovering operating environment.

Business focus – retail & SME banking

A clearly defined business focus lies at the core of our operations: we directly serve 17.4 million customers in eight core markets and operate some 3,200 branches, as well as state-of-the-art alternative distribution channels, such as internet and phone banking. Hence, while we do have substantial operations outside retail and SME banking, retail and SME banking is our core competence. This core competence in retail and SME banking is a direct result of the bank's history and accordingly woven into Erste Group's genetic fabric. In 1819, wealthy Viennese citizens donated funds in order to establish Erste Group's predecessor, a savings bank. They aimed to bring affordable banking services to wide sections of the population. This goal is just as valid today as it was some 190 years ago, especially against the backdrop of operating in Central and Eastern Europe.

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

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

While in a slow growing economic environment short-term earnings growth can be insignificant, risk costs may decline only gradually and capital requirements will rise as a result of new regulation, we strongly believe that due to the continued underpenetration of most of our markets the retail and SME business will remain profitable throughout the entire business cycle.

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

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

Geographic focus – Central and Eastern Europe

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

Since then we have far surpassed our initial goals. Our home market now covers a contiguous region of 120 million inhabitants, we service 17.4 million customers (of whom 16.1 million are residents of the European Union), we have successfully integrated more than ten acquisitions in Central and Eastern Europe, and in Austria we have made a quantum leap forward in our efforts to work more closely with the savings banks through the establishment of a new cross-guarantee system. This agreement forms the basis for a wide-ranging cooperation between Erste Group and the savings banks covering such areas as common back office structures, common marketing and common product development.

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

Efficiency focus – a holistic approach to efficiency

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

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

The efficient management of the cost base is a key priority for us. While we do not believe in blanket cost-cutting programmes, we continuously and carefully re-examine all operating cost items. Through this bottom-up approach we uncovered various opportunities to achieve savings in 2010, most notably in the area of non-staff costs: we improved our group-wide sourcing capabilities, e.g. in the IT area and we scaled back our expenses for third party consultants. Overall, we managed to keep costs stable in 2010. This excellent performance, which we view as sustainable, helped to push the cost/income ratio down to 48.9%.

The efficient management of capital resources remained a key focal point in 2010, particularly as the Basel Committee published new proposals on banking regulation, covering primarily changed capital and liquidity requirements. While we believe that any new banking regulation should reflect the political will for banks to return to their core business, i.e. collecting deposits and transforming them into credit for the real economy, we continued to raise our capital ratios to levels unprecedented in our history: the tier 1 ratio in relation to total risk rose to 10.2%, the core tier 1 ratio in relation to total risk reached 9.2%, up from 8.3% a year earlier. This was a result of rising internal capital generation and a decline in risk-weighted assets.

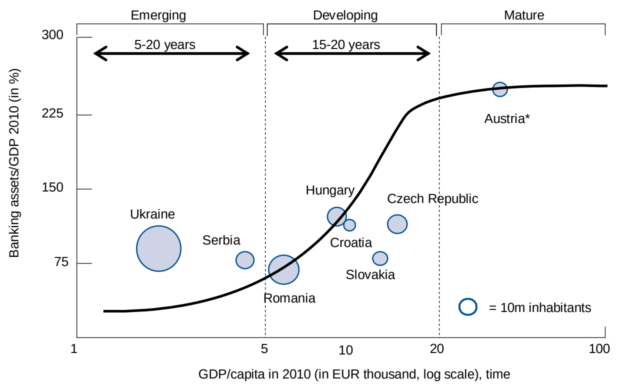
LONG-TERM DEVELOPMENT DRIVERS

While business growth in the immediate future will likely be less significant than prior to the financial and economic crises, we will still briefly present the long-term development patterns in our markets, as well as the three most important determinants of our long-term growth: the retail and SME business, wealth management and the continued business development within our existing CEE markets.

Development patterns

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

Banking development stages in transformation economies



*) Domestic assets only.

Source: Local central banks, Erste Group.

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

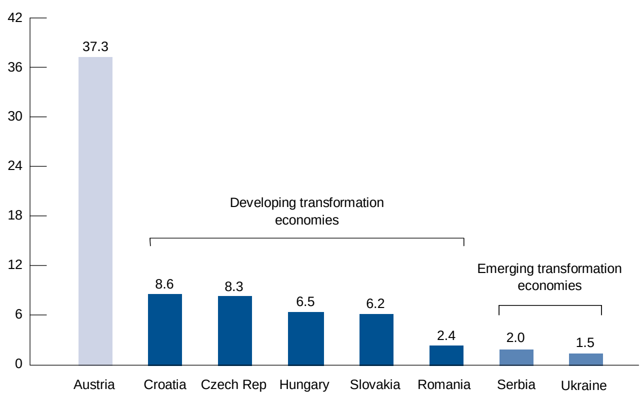
Developing markets feature a GDP/capita between EUR 5,000 and EUR 20,000 and a banking asset penetration ratio of anywhere between 60% and 140%. We estimate that this stage lasts at least 15 to 20 years. In this period, retail lending comes of age and transformation countries reach a level of wealth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

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

Retail and SME business growth

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

Customer loans/capita in CEE (2010) in EUR thousand



Source: Local central banks, Erste Group.

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

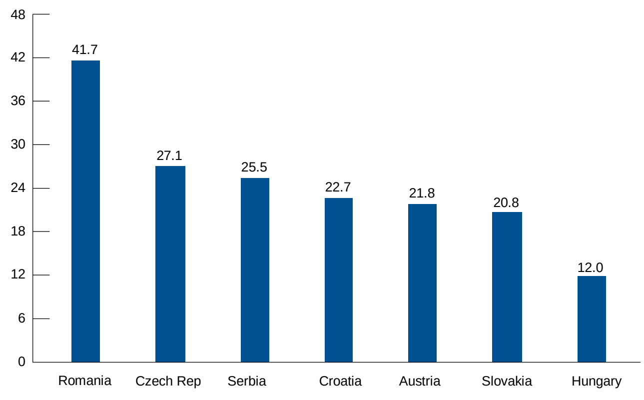
Within the overall loan growth trend, we will particularly benefit from our focus on retail customers. In almost all of our markets, retail lending, particularly in the form of residential mortgages, has only just started. A case in point is mortgage penetration: it equals about 15% to 20% of GDP in our most developed markets, while it is still substantially lower in Romania, Serbia or the Ukraine. Even in Austria this measure only stands at about 25%, leaving room for growth, while in the European Union it reached an estimated 50% in 2010.

Wealth management

As customers become more prosperous, another source of long-term growth will be wealth management, which covers our affluent banking and fund management activities. Irrespective of when this business actually becomes meaningful, we are already uniquely positioned to benefit from any such development: we dominate the fund management markets in our existing central and east European universe with a market share of nearly 20%. In addition, we can draw on our experience in Austria, where we lead the market with a share of 21.8%. While we also used to be active in the life insurance business and established substantial footholds in all key CEE markets, we have sold off these operations to Vienna Insurance Group in 2008 and entered into a long-term distribution agreement with them. This way, we will continue to benefit from the expected rise in demand for insurance products over the long term.

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

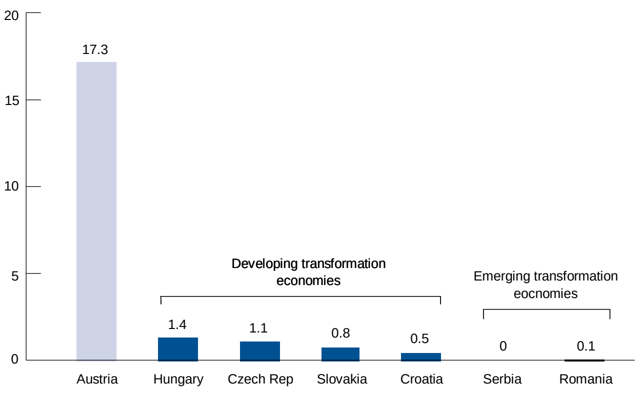
Fund management market shares (2010) in %



Source: Erste Asset Management.

Nevertheless, the divide in fund management between mature and developing markets on the one hand, and between developing and emerging transformation economies, on the other, is even more pronounced than that experienced in the area of loans. Funds under management per capita in Austria equalled EUR 17,300 at the end of 2010, while the same figure stood at about EUR 1,100 and EUR 1,400 in the Czech Republic and Hungary, respectively. In Romania, the fund management market is in the very early stages of development, with funds under management standing at EUR 60 per capita. The same is true for Serbia, where total funds under management amounted to only EUR 2 per capita at the end of 2010.

Funds/capita in CEE (2010) in EUR thousand



Source: Local fund management associations, Erste Group.

The wealth management opportunity is best illustrated by a striking comparison. At the end of 2010, we managed assets of EUR 32 billion in Austria, a market of 8.4 million people. In our developed central and east European markets, covering the Czech Republic, Slovakia, Hungary and Croatia, which have a combined population of just over 30 million, the same figure stood at only EUR 6.4 billion. While growth patterns were severely disrupted in 2008 and 2009, the long-term trend still points towards faster growth in Central and Eastern Europe. Based on the long-term catch-up trend, developing CEE funds under management could reach 50% of the Austrian levels within ten years.

Developing existing CEE markets

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

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

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

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

Management Report

ECONOMIC ENVIRONMENT IN 2010

The global economy grew by 4.8% in 2010, continuing the recovery that started in the second half of 2009. This growth was mainly driven by Asia where foreign trade and industrial output already surpassed pre-crisis levels. By contrast, the recovery in the US and in Europe remained subdued and was not sufficient to reverse the trend of rising government debt and unemployment, which was a direct result of the financial and economic crisis. Within Europe, the economic development varied. In export-based countries such as Germany, the economy has expanded robustly, accompanied by declining unemployment and relatively low budget deficits. In the countries of the EU periphery, which struggled not only with the effects of the global recession but also with their own home-grown problems such as insufficient competitiveness and decreasing real estate prices, their economies either stagnated or contracted. Unemployment rose and budget deficits remained high despite the implementation of very restrictive fiscal policies.

The Greek debt crisis escalated in April and triggered a decline in international financial markets as well as a depreciation of the euro versus all major currencies. Only the joint decision of the EU and the IMF to extend financial help to Greece, and the ECB's resolution to buy government bonds of selected euro member states in the secondary market, helped to stabilise the situation. While the US Dow Jones Industrial Index – just like the DAX and the ATX – posted gains in 2010, equity markets in the peripheral countries declined. The diverging global recovery trends were also reflected in differing inflation rates, and in part, in contrasting monetary policies. While, for example, the Chinese central bank raised the key lending rate twice in 2010, the US Fed responded to the threat of a relapse into economic recession by making further purchases of government bonds. National bank base rates in nearly all developed economies remained at historically low levels.

Boosted by strong export demand, economic growth recovered in Austria too. In 2010 real GDP rose by 2.0%. Consumer demand benefited from increased employment which recovered not only in the service sector but also in industry. The unemployment rate continued to improve throughout the year to 4.5% at the year-end, remaining substantially below the EU average of 10.1%. The rise in consumer prices continued at a moderate pace, resulting in an inflation rate of 1.8% for the 12 months to December 2010. In order to contain public debt, the government adopted an austerity package in the second half of the year.

The economic recovery in Central and Eastern Europe was driven mainly by the export sector. Open economies such as the Czech Republic and Slovakia profited from robust economic growth in Germany. Real GDP growth rose in most of Erste Group's CEE core markets, ranging from 4.3% in the Ukraine to 1.2% in Hungary. Only Croatia and Romania suffered further GDP declines: 1.4% and 2.1%, respectively. Nevertheless, with unemployment in the region remaining at high levels, domestic demand has continued to be subdued with consumer prices seeing little growth. One indirect benefit of this low domestic demand however, is that higher global energy and commodity prices, particularly from the second half of the year, have not translated into higher inflation.

PERFORMANCE IN 2010

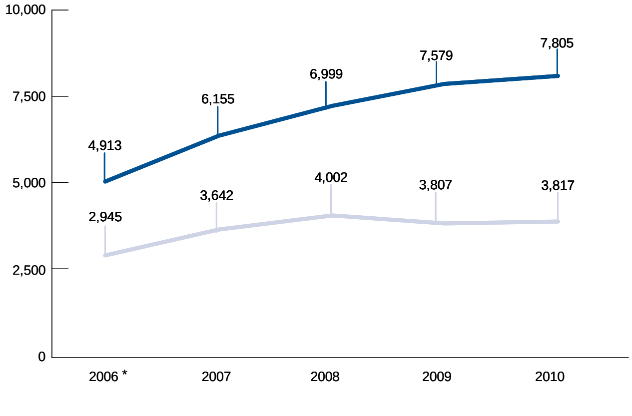
In 2010, Erste Group did not undertake any significant acquisitions or disposals that might distort the underlying rates of changes outlined below.

Overview

In 2010, the **operating result** increased by 5.7%, from EUR 3,771.4 million to EUR 3,987.9 million. An increase in net commission income and net interest income as well as rigorous cost control contributed to the best operating performance in Erste Group's history.

Overall, **operating income** went up by 3.0% to EUR 7,804.7 million, compared to EUR 7,578.8 million in 2009. This was mainly attributable to higher net commission income (+9.2% to EUR 1,936.0 million) and increased net interest income (+3.7% to EUR 5,412.5 million). By contrast, the net trading result decreased by 22.0% to EUR 456.2 million. As **general administrative expenses** remained stable (+0.2% to EUR 3,816.8 million), the **cost/income ratio** improved to 48.9% (2009: 50.2%).

Operating income and operating expenses in EUR million

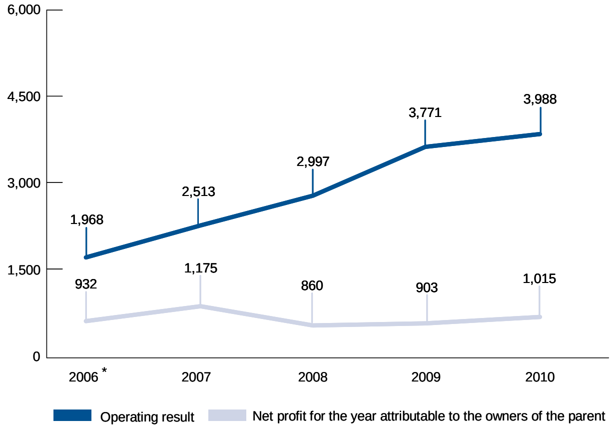


* adjusted for discontinued operations

Net profit for the year attributable to the owners of the company rose by 12.4%, from EUR 903.4 million to EUR 1,015.4 million.

Cash return on equity, i.e. return on equity adjusted for non-cash expenses such as goodwill impairments or straight-line amortisation for customer relationships, declined from 9.7% (reported value: 9.1%) in 2009 to 8.2% (reported value: 7.7%) in 2010. This was largely due to an equity base that widened by 30% to an average of EUR 13.3 billion in 2010 (2009: EUR 10.0 billion).

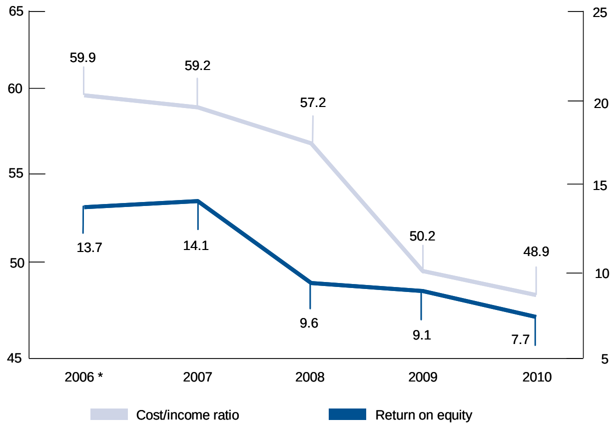
Operating result and net profit for the year attributable to the owners of the company in EUR million



* adjusted for discontinued operations

Cash earnings per share in 2010 amounted to EUR 2.54 (reported value: 2.33) compared to EUR 2.57 (reported value: 2.37) in 2009. This measure was also affected by the broader equity base.

Key profitability ratios in %



* adjusted for discontinued operations

Total assets increased by 2.1% to EUR 205.9 billion since year-end 2009. This rise was attributable to the switch to gross accounting of derivative financial instruments, as well as to higher customer deposit and customer loan volumes. The growth in customer business was partly due to currency movements in Central and Eastern Europe (EUR/CZK, CHF/HUF, CHF/EUR). In contrast, the significance of interbank business continued to decrease.

As risk-weighted assets declined, the **solvency ratio** improved from 12.7% at year-end 2009 to 13.5% as of 31 December 2010. It therefore remained well above the statutory minimum requirement of 8.0%. The **tier 1 ratio** in relation to total risk equalled 10.2% as at 31 December 2010, compared to 9.2% at year-end 2009.

Dividend

At the annual general shareholders' meeting, the management board will propose a dividend payout of EUR 0.70 per share (2009: EUR 0.65).

Outlook

All of Erste Group's markets in Central and Eastern Europe are expected to record moderate economic growth in 2011. The Czech Republic and Slovakia are set to build on the solid performance of 2010, while Romania should successfully emerge from recession in 2011, albeit with meaningful growth not expected before the second half of the year. Hungary should benefit from an accelerating economic growth rate, although admittedly from a very low base. Nevertheless, in both countries, risk costs are expected to remain elevated throughout 2011.

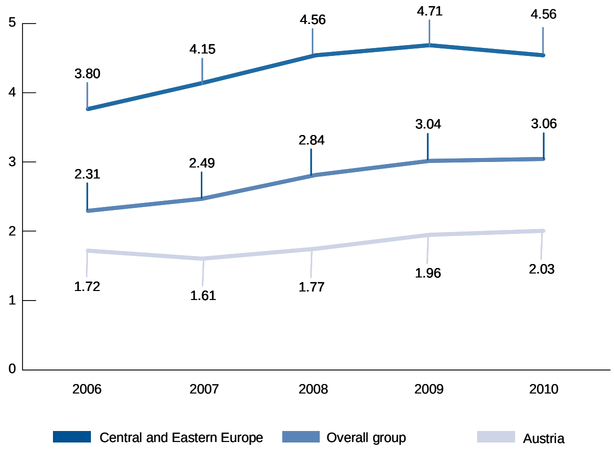
At group level, the macroeconomic improvement should result in gradually declining risk costs and higher profitability. The latter is expected to be supported by a solid operating performance as a result of mid-single digit loan growth, resilient margins and strict cost management. Rising fee income on the back of increased demand for asset management products, insurance products as well as debt capital market transactions should have an additional positive impact on the operating result. However, net profit will be adversely affected by extraordinary items such as the banking tax in Austria (c. EUR 100 million post-tax in 2011) and Hungary (c. EUR 35 million post-tax in 2011). Overall, Erste Group's improved ability to generate retained earnings enables it to redeem participation capital with no need to raise equity.

ANALYSIS OF PERFORMANCE

Net interest income

Net interest income rose from EUR 5,220.9 million in 2009 by 3.7% to EUR 5,412.5 million. The net interest margin (net interest income as a percentage of average interest-bearing assets) remained stable in Austria and Central and Eastern Europe, resulting in a group-wide net interest margin of just above 3.0% in 2010. With the exception of Slovakia, demand for new loans remained subdued.

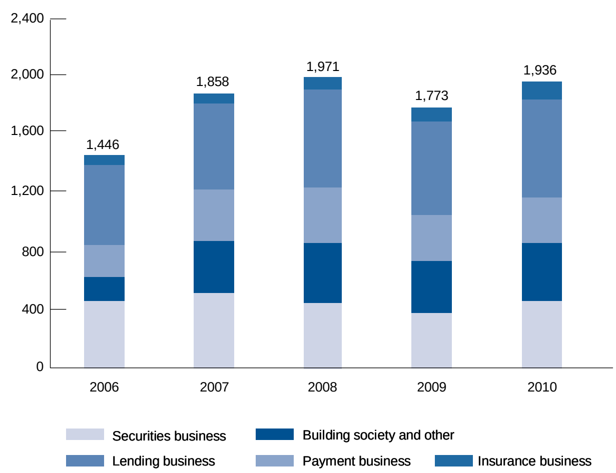
Net interest margin in %



Net fee and commission income

Net fee and commission income increased by 9.2% year-on-year in 2010, from EUR 1,772.8 million to EUR 1,936.0 million. This development was mostly driven by growth in the securities business at the Austrian subsidiaries and the cross-guarantee savings banks as well as by fees from payment transfers at the CEE subsidiaries. As in previous years, the insurance brokerage business continued to perform well. Net fee income from the investment banking business rose substantially, as Erste Group increased its market share in CEE debt capital markets.

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



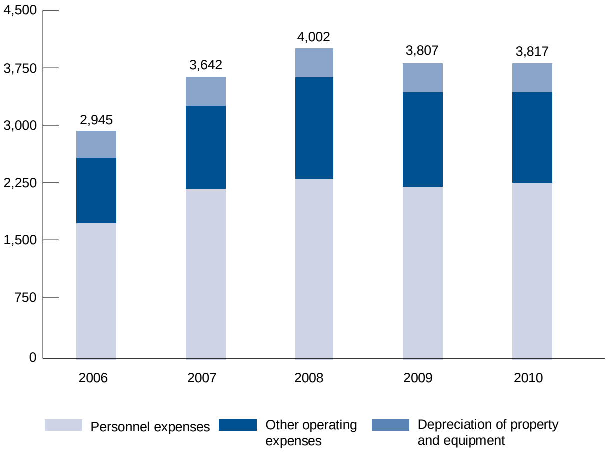
Net trading result

The higher income from derivatives trading (up 38.9% to EUR 68.2 million) did not offset the decline in income from securities trading (-33.2% to EUR 170.0 million) and from foreign exchange trading (-22.5% to EUR 218.0 million). Consequently, the net trading result of EUR 456.2 million remained below the exceptional level of 2009 (EUR 585.1 million).

General administrative expenses

General administrative expenses remained stable at EUR 3,816.8 million (+0.2% vs. EUR 3,807.4 million in 2009; currency-adjusted: -0.8%).

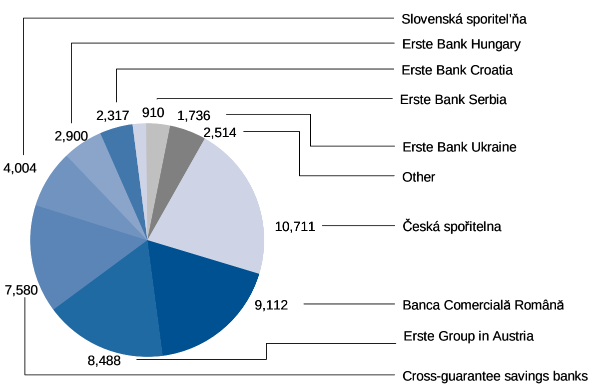
General administrative expenses, structure and trend, in EUR million



Personnel expenses increased by 1.6% (currency-adjusted: +0.9%), from EUR 2,227.5 million to EUR 2,263.8 million, despite the positive effects of efficiency improvements implemented in 2009 that resulted in lower headcounts at the savings banks and in Central and Eastern Europe (mainly in Slovakia and Hungary).

As at December 2010 Erste Group employed a total of 50,272 people (31 December 2009: 50,488).

Headcount at 31 December 2010



Other administrative expenses declined by 3.0% (currency-adjusted: -4.4%), from EUR 1,202.3 million to EUR 1,165.9 million in 2010. Savings were achieved mainly in IT costs.

Depreciation and amortisation rose by 2.5% (currency-adjusted: +1.1%), from EUR 377.6 million to EUR 387.1 million in 2010.

Operating result

As the 3.0% rise in operating income, from EUR 7,578.8 million to EUR 7,804.7 million, exceeded the increase in general administrative expenses (+0.2% from EUR 3,807.4 million to EUR 3,816.8 million), the operating result improved by 5.7%, from EUR 3,771.4 million to EUR 3,987.9 million for 2010.

Risk provisions

Risk provisions (i.e. the balance of the allocation/release of provisions for the lending business, costs of direct loan write-offs and of income from the recovery of loans already written off) decreased by 1.2% year-on-year, from EUR 2,056.6 million to EUR 2,031.2 million. **Risk costs** in relation to average customer loans amounted to 155 basis points (2009: 161 basis points).

Other operating result

The other operating result deteriorated from EUR -355.8 million to EUR -439.3 million in 2010. This was mainly attributable to other taxes, which rose from EUR 24.8 million to EUR 71.9 million, principally due to the introduction of the Hungarian banking tax, and to higher goodwill impairments related to smaller participations (up from EUR 28.0 million to EUR 51.9 million, EUR 21.3 million of which was attributable to cross-guarantee system savings banks). Generally, this item included the straight-line amortisation of intangible assets (customer relationships) of EUR 69.5 million (2009: EUR 67.2 million) and deposit insurance contributions of EUR 66.2 million (2009: EUR 55.9 million). Furthermore, write-downs for IT projects, Czech and Slovak real estate and the leasing portfolio of BCR, as well as provisions for litigation in a total amount of EUR 91.5 million were booked in 2010.

Result from financial assets

The overall result from all categories of financial assets developed well compared to 2009. Although still slightly negative at EUR -2.3 million, it improved strongly from a loss of EUR 97.7 million recorded in the previous year. In 2010, significantly lower impairments and gains on sales of structured products and equity-linked products in the AfS portfolio offset the year-on-year decline in revaluation gains of securities in the fair value portfolio. By contrast, impairments for securities in the HtM portfolio decreased only slightly.

The market value of the **ABS/CDO portfolio** of Erste Group (including the savings banks) remained unchanged at EUR 1.9 billion as at 31 December 2010. In 2010, a revaluation gain of EUR 34.3 million in the fair value portfolio was recognised in income (2009: EUR 56.5 million). Impairments were recognised in the AfS portfolio (EUR 14.0 million vs. EUR 42.1 million in 2009), as well as in the HtM portfolio (EUR 8.4 million). Furthermore, realised losses of EUR 2.0 million were recognised in the AfS portfolio, following a loss of EUR 33.2 million in 2009. In 2010, the overall positive effect on pre-tax profit equalled EUR 9.9 million (vs. a negative effect of EUR 18.8 million in 2009). In the available-for-sale portfolio, the mark-to-market valuation in 2010 resulted in a gain of EUR 65.4 million (2009: EUR 281.8 million), booked against equity.

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

Pre-tax profit from continuing operations improved year-on-year by 20.1%, from EUR 1,261.3 million to EUR 1,515.1 million.

Net profit for the year attributable to owners of the parent increased by 12.4%, from EUR 903.4 million to EUR 1,015.4 million in 2010.

Tax situation

In accordance with current group taxation regulations, the majority of the key domestic subsidiaries (especially Erste Bank der oesterreichischen Sparkassen AG, s Bausparkasse, Immorent, Erste Asset Management GmbH und Salzburger Sparkasse) constitute a group of companies with Erste Group Bank AG for tax purposes under section 9 of the Austrian Corporation Tax Act and are thus subject to taxation as a single entity.

For 2010, this profit pool incurred no current tax expense for Austrian corporate income tax. This was mainly attributable to high non-taxable dividend income. The amounts reported under taxes on income thus relate primarily to foreign income-based taxes, deferred tax assets and liabilities recognised under IFRS, as well as tax payable by smaller Austrian subsidiaries and various Haftungsverbund savings banks.

In 2010, the reported total income tax expense amounted to EUR 328.7 million (2009: EUR 284.7 million).

The tax rate decreased from 22.6% in 2009 to 21.7% in 2010.

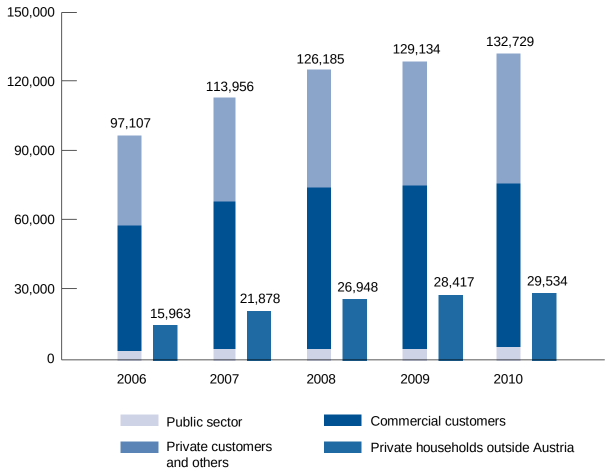
Balance sheet development

Total assets increased by 2.1% to EUR 205.9 billion since year-end 2009. This rise was attributable to the switch to gross accounting of derivative financial instruments, as well as to higher customer deposit and customer loan volumes. The growth in customer business was partly due to currency movements in Central and Eastern Europe (EUR/CZK, CHF/HUF, CHF/EUR). In contrast, the significance of interbank business continued to decrease.

Loans and advances to credit institutions decreased by 4.9%, from EUR 13.1 billion at year-end 2009 to EUR 12.5 billion as at 31 December 2010. This overall decline in foreign interbank transactions offset the increased repo transactions with the Czech central bank (EUR +1.7 billion).

Loans and advances to customers rose by 2.8%, from EUR 129.1 billion to EUR 132.7 billion, mainly due to higher lending to retail customers by the savings banks and the CEE subsidiaries, and to some extent also due to currency fluctuations.

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



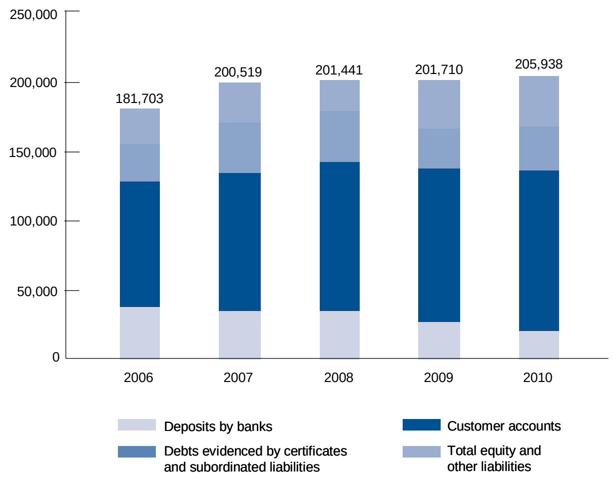
Risk provisions rose from EUR 5.0 billion to EUR 6.1 billion as a result of additional allocations due to adverse economic conditions. The NPL ratio (based on customer loans) grew from 6.6% at year-end 2009 to 7.6% as of 31 December 2010. At the same time, the NPL coverage ratio improved further during the year, from 57.2% at year-end 2009 to 60.0%.

Investment securities in the various categories of financial assets remained nearly unchanged compared to year-end 2009 at EUR 34.4 billion. The decline of 18.8% in the FV portfolio to EUR 2.4 billion and of 4.5% in the HtM portfolio to EUR 14.2 billion was offset by the increase of 8.3% in the AfS portfolio to EUR 17.8 billion.

Customer deposits grew by 4.4%, from EUR 112.0 billion to EUR 117.0 billion, and therefore at a much faster pace than loans and advances to customers. This development was mainly attributable to growth in the Czech Republic – especially in savings and corporate deposits, but to some extent also to currency appreciation – as well as growth in Slovakia and Austria. Accordingly, the loan-to-deposit ratio improved from 115.3% to 113.4% as of 31 December 2010.

New issues (including covered bonds) led to in an increase in **debt securities in issue** from EUR 29.6 billion by 5.7% to EUR 31.3 billion. The marked decline in deposits by banks by 23.4% to EUR 20.2 billion reflected the decreasing reliance on short-term interbank deposits, while covered bonds gained in importance for long-term funding.

Balance sheet structure/liabilities and total equity in EUR million

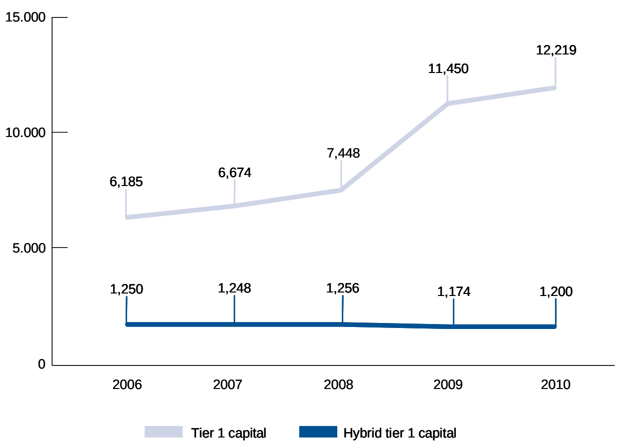


Total risk-weighted assets (RWA) declined to EUR 119.8 billion as at 31 December 2010 (31 December 2009: EUR 123.9 billion) as a result of a higher share of secured lending and the planned decline in international business volumes.

Total eligible qualifying capital of the Erste Group credit institution according to the Austrian Banking Act rose from EUR 15.8 billion at year-end 2009 to EUR 16.2 billion as at 31 December 2010. The cover ratio in relation to the statutory minimum requirement as of the reporting date (EUR 9.6 billion) amounted to 169% (year-end 2009: 159%).

The **Tier 1 capital** after the deductions as defined in the Austrian Banking Act equalled EUR 12.2 billion (year-end 2009: EUR 11.5 billion).

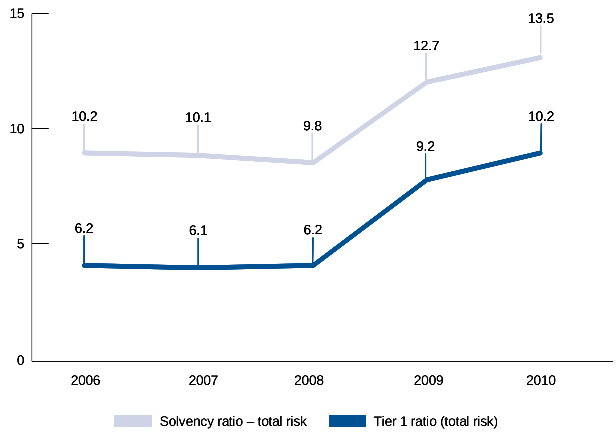
Tier 1 capital under ABA and hybrid tier 1 capital in EUR million



Tier 1 ratio including the capital requirements for market and operational risk (total risk) increased to 10.2% (year-end 2009: 9.2%); the core tier 1 ratio improved to 9.2% as of 31 December 2010 (year-end 2009: 8.3%).

Solvency ratio in relation to total risk (total eligible qualifying capital as a percentage of the assessment base for total risk pursuant to § 22 par.1 of the Austrian Banking Act) amounted to 13.5% as at 31 December 2010 (year-end 2009: 12.7%), well above the statutory minimum requirement of 8.0%.

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



POST-BALANCE SHEET EVENTS

There were no significant balance sheet events after the year end.

RISK MANAGEMENT

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

RESEARCH AND DEVELOPMENT

Erste Group does not have any activities in research and development. In order to provide customers with improvements in the retail business and ongoing services, innovation and research is promoted and fostered throughout the bank's business operations.

CORPORATE SOCIAL RESPONSIBILITY

Corporate social responsibility (CSR), as a key element of responsible corporate conduct, guarantees that concerns and expectations of customers, suppliers, investors, employees, regulatory authorities and local communities are considered when reaching decisions. External sustainability and CSR ratings recognize the bank's achievements in this field. In 2010, Erste Group shares were included in the ASPI Eurozone® index.

Customers

Erste Group is committed to customer satisfaction and is constantly enhancing its overall service quality. In 2010, the bank continued to improve the financial services delivered to retail customers and small and medium-sized businesses.

Retail Customers

In 2010, Erste Bank Oesterreich extended its range of multilingual services for customers from specific ethnic groups. The bank established a social banking team to coordinate all activities relating to social issues and businesses and supported the activities of good.bee and Zweite Sparkasse in Austria. As in previous years, it also carried out its customer satisfaction survey *Quality Check*. Erste Bank Hungary continued to make its branches accessible to the disabled (for example, providing easy access for wheelchairs) and installed special equipment for hearing impaired customers. Erste Bank Serbia's customers benefited from interest rates subsidized by the government and the launch of a scholarship loan for students. Erste Group extended its *Helping Hands* programme that was initiated in 2009 and helps customers in all markets in coping with unemployment and deteriorating personal finances. A further initiative by Erste Bank Oesterreich and Caritas Oesterreich involved providing training schemes for unemployed persons and individual financial coaching, whilst in some cases the bank waived fees on current accounts. Erste Group's Romanian subsidiary BCR and Slovenská sporiteľňa temporarily suspended fees or lowered loan repayments for flood victims.

Small and medium-sized companies (SME)

In 2010, SME customers continued to profit from Erste Group's agreement with the European Investment Bank (EIB). The EIB provided financing, amounting to EUR 440 million, to SMEs in Central and Eastern Europe through four subsidiaries of Erste Group: Česká spořitelna, Erste Bank Oesterreich, Erste Bank Hungary and Immorent. Within the framework of *s Oesterreich Initiative*, the bank extended loans amounting to EUR 3 billion to SME customers and start-up companies in 2010. The *GO! GründerCenter* hosted more than 1,000 consultations.

Ethical Investments

Erste Sparinvest KAG, Erste Group's Austrian fund management company, continued its initiatives in 2010; the volume of assets under management in ethical investments reached EUR 1.3 billion (+15% vs. 2009). In 2010, Sparinvest's sustainability specialists managed bond funds, regional stock funds, thematic funds for climate protection and the environment as well as a micro-finance fund of funds. *Espa Vinis Stock Global* remains the flagship product. In addition, *Espa Vinis Microfinance*, a new fund supporting global micro-loans mainly to individual debtors in emerging markets was launched.

Financial inclusion

In 2010, good.bee (the community development venture of Erste Group Bank AG and ERSTE Foundation) intensified its efforts to provide suitable financial solutions to people without any prior access to banking services. In addition to providing micro-banking services, good.bee is responsible for the bank's social activities:. good.bee promoted *The Social Business Tour 2010* in six cities in Central and Eastern Europe (Vienna, Bratislava, Budapest, Prague, Belgrade, and Bucharest) and organized a Social Business Idea contest aimed at identifying the best social business ideas. Romania also remained on good.bee's agenda in 2010. Romanian customers of good.bee Mobile Transactions can now open current accounts, remit and receive payments via mobile telephony. In cooperation with local institutions, good.bee offered training to social entrepreneurs to develop business knowledge and skills.

Civil society

Erste Group aims to pass on part of the business profits earned in Central and Eastern Europe to the people of the region. The *Added Value* sponsorship programme consolidates all of these activities throughout the Group and highlights the bank's commitment to social responsibility.

Social activities

In 2010, Erste Group supported, among other projects, the annual Caritas Eastern Europe campaign on behalf of children in Europe's poorest countries, the National Help Campaign to combat poverty in Austria, and the 2010 relief action for the earthquake victims in Haiti. Erste Group regularly provides support for special projects run by Caritas Vienna and Caritas Austria.

Since 2003, Oesterreichisches Hilfswerk has been a major cooperation partner of several Erste Group companies. In 2010, s Bausparkasse, Erste Bank Oesterreich and the saving banks all supported the annual *Hilfswerk* initiative *KINDER FÖRDERN. ELTERN HELFEN* (*Support Children. Help Parents*). The Romanian subsidiary provided financial support to children through its *BCR Hopes* programme. BCR and the Slovenskej sporiteľne foundation initiated campaigns to support flood victims. Česká spořitelna launched *Catch your Dream*, a project that encourages interested young people to do charitable work. Erste Bank Croatia joined the scholarships programme *Step into Life*.

Arts and culture

Erste Group continued its extensive arts and culture sponsorship activities in 2010. The Group worked with partners such as the film festival Viennale, the art fair *VIENNAFAIR* and the exhibition venue *Secession*. Since 1989, Erste Group has annually commissioned original compositions in cooperation with *Klangforum Wien* and *Wien Modern*. In addition, Erste Group supported *Atelier Top 22*, a programme of *Unabhängiges Literaturhaus Niederösterreich*, which gives authors from Central and Eastern Europe an opportunity to spend two months at Krems. Slovenská sporiteľňa continued its patronage of regional theatres. For the first time, Erste Bank Hungary took part in the Erste-*AMADEUS* creative scholarship programme, whilst it remained a strategic sponsor of *Művészetek Palotája (Palace of Arts)*. Over the past year, Erste Bank Serbia supported more than 50 cultural initiatives.

Education

In line with its savings bank tradition, Erste Group developed numerous initiatives group-wide to increase the general knowledge of finance in 2010. The bank remains committed to reaching out to students, sponsoring institutions such as the *Students4Excellence* network which offers career opportunities to selected students. For the fourth consecutive year Erste Group, together with Erste Foundation, supported the Balkan Case Challenge (BCC), an international case study competition and recruitment event. Almost 60 students from eight countries participated in the 10th Erste Group Summer University Danubia, which was organized together with Vienna University of Economics and Business. Erste Bank Oesterreich, as a patron of ZOOM children's museum in Vienna, sponsored an exhibition named *Cash, Dosh, Dough* for children. Česká spořitelna established *Moneymanie.cz*, a new educational portal; almost 6,000 students participated in Slovenskej sporiteľne foundation's educational project *Know your money*.

Corporate volunteering

Volunteer programmes are a key element of Erste Group's concept of corporate social responsibility. Employees are encouraged and empowered to provide voluntary services to local communities in all countries in which the bank does business. After the floods in the summer of 2010, a team of BCR volunteers built houses for flood victims. Česká spořitelna employees assisted people in need, including the elderly, the underprivileged and drug addicts, or worked on environmental projects.

Staff

In October 2010, Erste Group introduced an internal job market to encourage and facilitate mobility within the Group. The bank started to develop a compensation policy for Erste Group's senior management and continued projects to adjust salaries and benefits within the group. In 2010, the second *Group Leadership Development Programme* was held, whilst the Erste *Group Junior Trainee Programme* started with the third group of trainees. To date, 66 trainees have successfully completed the trainee programme. The current 25 trainees also benefit from a joint scheme with the University of Vienna. *Erste School of Banking and Finance* aligned group-wide training and education activities in 2010, among them *Learn. Reflect. Exchange. Network*, a series of 19 lectures. Healthcare also remained a key concern for Erste Group. The bank started an evaluation of health measures and initiatives in all countries. Special emphasis was put on stress management and burnout prevention as well as on early recognition of risk factors for cardio-vascular diseases. In Austria, 1,200 employees of Erste Bank Oesterreich and Erste Group Bank AG participated in the preventive health check-up programme. Erste Bank Oesterreich and BCR used surveys to gauge employee work commitment and satisfaction. In Romania, 45 BCR employees received awards for meaningful business contributions within the framework of the *BCR Star Awards*, an employee recognition scheme. BCR also invited employees to contribute to the ongoing improvement of customer services by participating in the permanent idea competition *BCR Progress*. Erste Bank Serbia nominated selected employees to act as "value ambassadors".

Environment

Erste Group stepped up and streamlined its environmental efforts in 2010 by defining an environmental policy. As a result, employees will be actively included in environmental initiatives going forward. Erste Group is committed to reducing carbon emissions by 15% within three years and to implementing the Environment Management System 14001. One of the medium-term priorities is to improve energy efficiency at all business locations and branches. In line with the overall group policy, various projects were carried out in all Erste Group markets. The wide variety of measures including a switch to energy saving technologies or programmes to optimise resource and waste management underlined the positive trend. Erste Bank Croatia developed special environmental loan models for the retail and corporate segment, e.g. loans for energy-saving renovations and the usage of renewable energy. The completion of Erste Campus (scheduled for 2014) will be a milestone for the implementation of this environmental policy. Besides economic viability, core criteria of the project included social and ecological sustainability.

CAPITAL, SHARE, VOTING AND CONTROL RIGHTS

Disclosures pursuant to section 243a (1) Austrian Commercial Code

At the end of 2010, DIE ERSTE oesterreichische Spar-Casse Privatstiftung, a foundation, held approximately 25.3% of the shares of Erste Group Bank AG, making the foundation the largest shareholder.

Art. 15.4 concerning the appointment and dismissal of members of the management board and the supervisory board is not directly prescribed by statutory law: a three-quarter majority of valid votes cast and a three-quarter majority of the subscribed capital represented at the meeting considering the proposal are required to pass a motion for dismissal of supervisory board members.

The articles of association contain no restrictions in respect of voting rights or the transfer of shares. A holding period of one year applies to the employee share ownership programmes (MSOP and ESOP).

Art. 19.10 of the Articles of Association concerning amendments to the Articles of Association contains a provision that is not prescribed directly by statutory law: amendments to the Articles of Association, in so far as they do not alter the business purpose, may be passed by a simple majority of votes cast and simple majority of the subscribed capital represented at the meeting considering the amendment. Where higher majority votes are required in individual provisions of the Articles of Association, these provisions can only be amended with the same higher majority vote. Moreover, amendments to Art. 19.10 require a three-quarter majority of the votes cast and a three-quarter majority of the subscribed capital represented at the meeting considering the proposal.

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

The share option plan of Erste Group Bank AG includes the following special provisions (Art. 17 of the share option plan) in the event of a takeover bid:

(1) Should a takeover offer for the shares of Erste Group Bank AG be announced to the public, all options that have been granted to the management board members and eligible managers at the time but have not yet vested will immediately vest for those management board members and eligible managers who fulfil the personal participation requirements.

(2) In such cases, the management board of Erste Group Bank AG will determine the vesting date, the end of the exercise window and the value date. These dates should be set in such a way that it is possible to exercise the options and sell the shares during the takeover procedure.

(3) In such cases, no key employees will be chosen from among the employees and/or they will not be granted any options.

(4) All allocated and delivered options may be exercised by eligible recipients one day following delivery; the provisions of Art. 11 (1) no. 2 (minimum holding period for options) and Art. 12 (1) no. 1 (exercise window) do not apply. The shares obtained may be offered for sale during the takeover procedure; Art. 16 (holding period) does not apply.

(5) The holding period of shares previously obtained (Art. 16) ends with the announcement of the takeover bid.

(6) If the takeover bid is withdrawn without a competitor having issued a takeover bid, options allocated pursuant to Art. 1 but not yet exercised become subject to a holding period of one year as of the day the withdrawal of the takeover bid becomes known. This corresponds to the holding period under Art. 1, which applies to the shares obtained on the basis of allocated options. The holding period(s) terminated under sub-sec. 5 are not re-applied.

Erste Stiftung (Foundation) and Criteria Caixa Corp SA (Criteria) have concluded a Preferred Partnership Agreement (PPA), which gives Criteria the status of a friendly investor and preferred partner for participation. Under this agreement, PPA Criteria is authorised to nominate a person for appointment to the supervisory board of Erste Group Bank AG. In return, Criteria has undertaken not to participate in a hostile takeover bid for Erste Group Bank AG's shares and to give Erste Foundation the right of pre-emption and an option right to the Erste Group Bank AG shares owned by Criteria. Under the PPA, Erste Foundation undertakes not to grant any rights to third parties that are more favourable than those granted to Criteria, except in certain circumstances. Erste Foundation's and Criteria's voting rights at Erste Group Bank AG remain unaffected by the PPA. The PPA has been approved by the Austrian Takeover Commission.

The agreement in principle of the Haftungsverbund provides for the possibility of early cancellation for material reasons. A material reason allowing the respective other contracting parties to cancel the agreement is deemed to exist if the ownership structure of a party to the contract changes in such a way – particularly by transfer or capital increase – that one or more third parties from outside the savings bank sector directly and/or indirectly gain a majority of the equity capital or voting rights in the contracting party.

The Haftungsverbund's agreement in principle and supplementary agreement expire if and as soon as any entity that is not a member of the savings bank sector association acquires more than 25% of the voting power or equity capital of Erste Group Bank AG in any manner whatsoever and a member savings bank notifies the Haftungsverbund's steering company and Erste Group Bank AG by registered letter within twelve weeks from the change of control that it intends to withdraw from the Haftungsverbund.

Directors and Officers Insurance

Changes in controlling interests

(1) In the event that any of the following transactions or processes occur during the term of the insurance policy (each constituting a "change of control") in respect of the insured:

a) the insured ceases to exist as a result of merger or consolidation, unless the merger or consolidation occurs between two insured parties, or
b) another company, person or group of companies or persons acting in concert who are not insured parties, acquire more than 50% of the insured's outstanding equity or more than 50% of its voting power (giving rise to the right to control the voting power represented by the shares, and the right to appoint the management board members of the insured), then the insurance cover under this policy remains in full force and effect for claims relating to unlawful acts committed or alleged to have been committed before this change in control took effect. However, no insurance cover is provided for claims relating to unlawful acts committed

or allegedly committed after that time (unless the insured and insurer agree otherwise). The premium for this insurance cover is deemed to be completely earned.

(2) In the event that a subsidiary ceases to be a subsidiary during the insurance period, the insurance cover under this policy shall remain in full force and effect for that entity for the remainder of the insurance period or (if applicable) until the end of the extended discovery period, but only in respect of claims brought against an insured in relation to unlawful acts committed or alleged to have been committed by the insured during the existence of this entity as a subsidiary. No insurance cover is provided for claims brought against an insured in relation to unlawful acts committed or allegedly committed after this entity ceased to exist.

Pursuant to the following provisions, members of the management board have the right to repurchase shares, where such a right is not prescribed by statutory law:

As per the decision of the Annual General Meeting of 12 May 2010:

(1) the company is entitled to purchase treasury shares under Section 65 (1) no. 7 of the Austrian Stock Corporation Act ("Aktiengesetz", AktG) for trading purposes. However, the trading portfolio of these shares may not exceed five percent of the subscribed capital at the end of any calendar day. The market price for the shares to be purchased must not be lower than 50% of the closing price at the Vienna Stock Exchange on the last trading day prior to the purchase and must not exceed 200% of the closing price at the Vienna Stock Exchange on the last trading day prior to the purchase. This authorisation is valid for 30 months, i.e. until 11 November 2012.

(2) The management board is entitled, subject to approval by the supervisory board, to purchase treasury shares pursuant to Section 65 (1) no. 8 of the Austrian Stock Corporation Act (AktG). However, the shares purchased under this authorisation and under Section 65 (1) nos. 1, 4 and 7 AktG may not exceed ten percent of the subscribed capital. The market price of each of the shares to be purchased may not be below EUR 2.00 or above EUR 100.00. The company is obliged to publish the relevant management board resolution and the details of the repurchase programme, as well as its duration. The purchased shares can be sold, upon approval by the supervisory board, in the form of an issue of shares as consideration and financing for the acquisition of companies, businesses, business units or shares in one or more domestic or foreign companies. Such an offering would be conducted outside the stock markets and would not constitute a public offering. Furthermore, the management board is entitled to draw shares without resolution at the Annual General Meeting. This authorisation is valid for 30 months, i.e. until 11 November 2012.

All sales and purchases were carried out as authorised at the Annual General Meeting.

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM IN REGARD TO THE GROUP ACCOUNTING PROCESS

Disclosures pursuant to section 243a (2) Austrian Commercial Code

Erste Group Bank AG has a complex internal control system with mechanisms that include, in particular, the 4-eye principle, IT-supported controls and decision-making powers geared toward risk exposure and surveillance instruments. The reporting scheme for accounting procedures has been summarised in the IFRS Accounting Manual of Erste Group. It is mandatory for the relevant units to comply with the accounting and measurement methods applicable for capturing, posting and accounting transactions.

In organisational terms, the areas Group Accounting and Group Performance Management are assigned to the CFO of Erste Group Bank AG. Monthly and quarterly reports to the management board and the supervisory board ensure regular financial reporting and surveillance of the internal control system.

Reporting is all but fully automated using input systems and automatic interfaces, and guarantees that the data for controlling, segment and earnings accounting as well as other evaluations are up to date. The information used by the accounting department is based on the same database and is reconciled monthly for reporting. Close collaboration between the accounting department and controlling ensures a constant comparison of target with actual data. This guarantees mutual supervision and coordination between departments.

External reporting involves the publication of consolidated quarterly financial statements of Erste Group Bank AG as well as the ongoing regulatory reporting obligations.

The quality of the internal control system is assessed by Internal Audit on an ongoing basis. Internal Audit works closely together with the responsible management board members and managing directors and reports regularly to the Audit Committee of the supervisory board. Moreover, they are focused on maintaining quality standards, especially in the event of organisational changes.

Vienna, 1 March 2011

The Management Board

Andreas Treichl mp Chairman	**Franz Hochstrasser mp** Vice Chairman
Herbert Juranek mp Member	**Gernot Mittendorfer mp** Member
Martin Škopek mp Member	**Bernhard Spalt mp** Member
Manfred Wimmer mp Member	

Segments

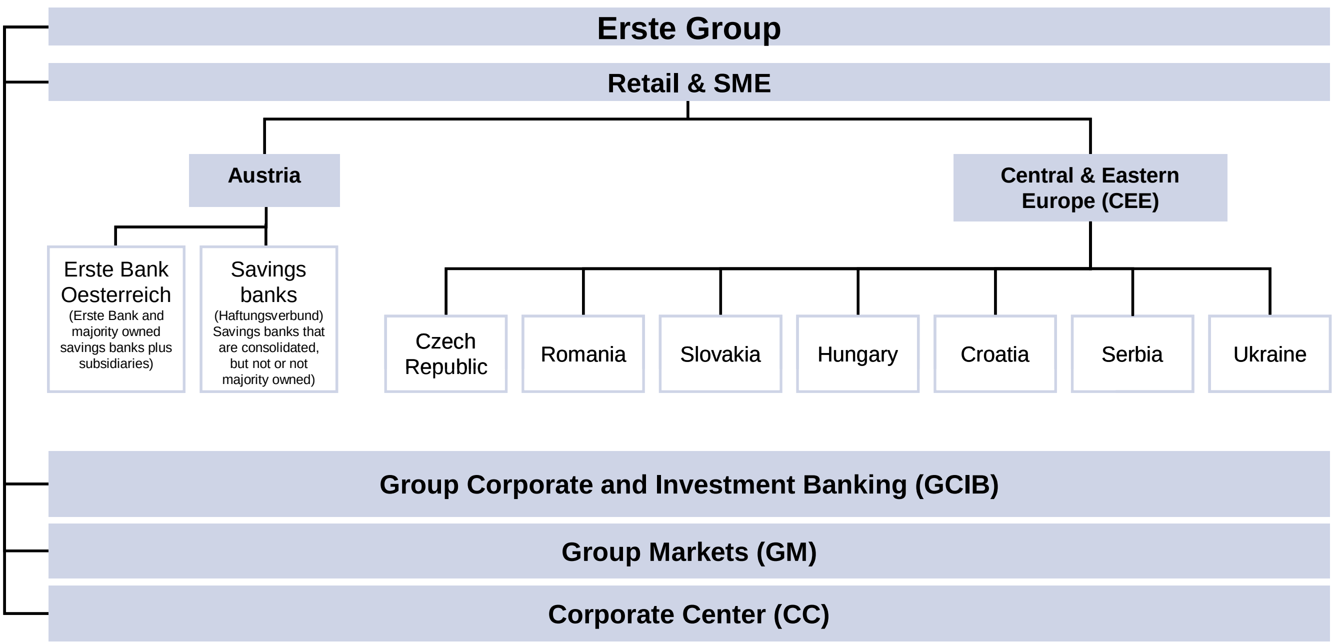
INTRODUCTION

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

The Group Corporate and Investment Banking (GCIB) segment includes Erste Group's fully divisionalised large corporate, investment banking, real estate and international business lines. The Group Markets segment includes divisionalised business lines, such as Group Treasury and Debt Capital Markets. The Corporate Center segment contains Group services such as marketing, organisation and information technology, as well as other departments supporting the execution of group strategy. In addition, consolidation items and selected non-operating items are allocated to this segment. Group Balance Sheet Management is allocated to the Corporate Center. The result of local asset/liability management units remains part of the respective local segments.

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

Segment reporting structure at Erste Group



Retail & SME

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

AUSTRIA

Economic review

The Austrian economy benefited from its very strong fundamentals during 2010 and was again one of the European economies least impacted by the economic downturn. Real GDP growth in 2010 was fuelled primarily by exports which grew by 12%, although private consumption also contributed to the rebound. Germany's economic recovery played a key role in boosting Austria's export performance, as Germany remained the country's single most important trading partner. Industrial production expanded strongly on the rebound in trade. Importantly, services continued to perform well in 2010, with the tourism sector once again a strong growth contributor. The Austrian economy also benefited from the government's fiscal policy measures introduced at the end of 2008. These measures included an economic stimulus package, income tax reductions, labour market packages and a car scrapping scheme. Overall, Austria's real GDP grew by 2.0% in 2010 while GDP per capita stood at EUR 33,800.

One of the strong points of the Austrian economy was the resilience of its labour market, with conditions remaining favourable throughout 2010. In fact, contrary to all of the Central and East European economies, Austria's unemployment rate decreased in 2010; at 4.5% at the end of 2010, the rate was among the lowest in the eurozone. Rather than reducing their employee count, domestic businesses made an effort to cut working hours and encouraged staff to take accrued vacation leave. This approach was also supported by labour market measures such as state-subsidised reduced working hour schemes.

The Austrian current account remained in surplus in 2010 at 3.7% of GDP and was driven by higher growth in exports compared to imports. The government deficit, on the other hand, rose further in 2010 and reached 4.1% of GDP. This increase was driven largely by discretionary measures introduced by the government already in 2009 and the aforementioned income tax cuts. Most importantly, however, in the last quarter of 2010 the government agreed on measures to reduce the budget deficit. The biggest item of this consolidation package on the revenue side was a bank levy in an amount of 0.2% of Austria's GDP, while other measures included tax increases on fuel, cigarettes, and airline tickets as well as the introduction of a capital gains tax. There was, however, still some uncertainty as to the measures the government would introduce on the expenditure side.

In 2010, inflation remained well under control. Average consumer prices rose by only 1.8% in 2010 driven mainly by higher energy prices. Wage growth in 2010 was slower than in the previous year and had a dampening effect on inflation. In addition, real estate prices in Austria remained stable reflecting the low home ownership level. The European Central Bank maintained its low interest rate policy, keeping the base rate at 1.00% throughout 2010.

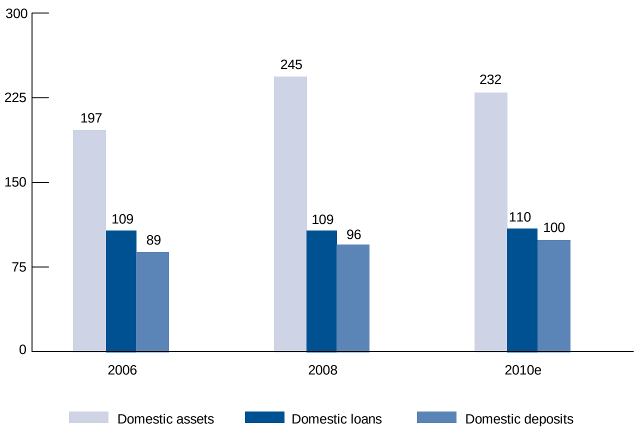
Key economic indicators – Austria	2007	2008	2009	2010e
Population (ave, million)	8.3	8.3	8.4	8.4
GDP (nominal, EUR billion)	272.0	283.1	274.3	283.2
GDP/capita (in EUR thousand)	32.8	34.0	32.8	33.8
Real GDP growth	3.7	2.2	-3.9	2.0
Private consumption growth	0.7	0.5	1.3	1.1
Exports (share of GDP)	41.7	40.1	33.7	36.6
Imports (share of GDP)	41.0	39.1	34.2	36.0
Unemployment (Eurostat definition)	4.4	3.8	4.8	4.5
Consumer price inflation (ave)	2.2	3.2	0.5	1.8
Short term interest rate (3 months eop)	4.7	2.9	0.7	1.0
EUR FX rate (ave)	1.0	1.0	1.0	1.0
EUR FX rate (eop)	1.0	1.0	1.0	1.0
Current account balance (share of GDP)	3.5	4.9	2.9	3.7
General government balance (share of GDP)	-0.4	-0.5	-3.5	-4.1

Source: Erste Group.

Market review

In the well developed Austrian domestic banking market penetration rates remained at sustainable levels, with the ratio of total assets to GDP equalling 232% at the end of 2010. The market remained very competitive due to the large number of non-listed banks. As a result, the market was characterised by much lower margins as well as lower risk costs than in Central Eastern Europe. Customer loans grew by 3% mainly driven by the retail segment. The deposit market benefited from the moderate increase in wages. All in all, customer deposits grew in line with loans in 2010 at a rate of 3%. The banking system's loan-to-deposit ratio stood at 110% at the end of the year. Importantly, the government announced in 2010 that it would introduce a special banking tax as of 2011totalling EUR 500 million as part of the measures to tackle the country's budget deficit. This banking tax will only be applicable to larger credit institutions.

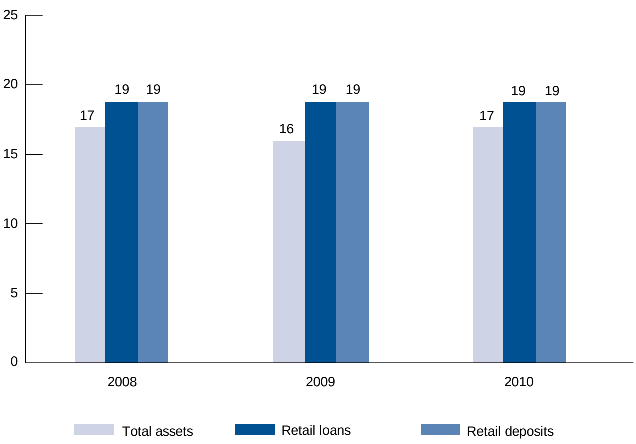
Financial intermediation – Austria (in % of GDP)



Source: Oesterreichische Nationalbank, Erste Group.

In this environment Erste Bank Oesterreich and the savings banks maintained their very strong market position in the Austrian market. Their combined total asset market share increased to 16.7% at the end of 2010. In the retail segment, Erste Bank Oesterreich and the savings banks slightly increased their share to about 19%, while in the corporate segment market shares ranged between 16-18% depending on customer product.

Market shares – Austria (in %)



Source: Oesterreichische Nationalbank, Erste Group.

SAVINGS BANKS

Business profile. The savings bank segment encompasses 47 Austrian savings banks with 760 branch offices in Austria that were consolidated as a result of their membership in the Haftungsverbund (cross-guarantee system). In these savings banks, Erste Bank Oesterreich held no or only minor shareholdings. Savings banks that are majority-owned by Erste Bank Oesterreich such as Salzburger Sparkasse, Tiroler Sparkasse, Sparkasse Hainburg-Bruck-Neusiedl and Weinviertler Sparkasse, were included in the segment Erste Bank Oesterreich.

The joint new cross-guarantee system (*Haftungsverbund Neu*) includes 53 of 54 the Austrian saving banks and the agreement also constitutes the legal basis for the collaboration with Erste Bank Oesterreich. The EU Commission described this cooperation as a reference model for all other decentralised sectors. A special cross-guarantee agreement exists between Erste Bank Oesterreich and Sparkasse Oberösterreich that was approved in Brussels by the EU in May 2010.

Business review

Strategy. The strategy of the savings banks centers around acquiring new customers with the medium-term goal of becoming market leader in Austria together with Erste Bank Oesterreich. Another important aim of the cooperation between Erste Bank Oesterreich and the saving banks is to work together in all key business areas. This comprises projects relating to legal requirements, the joint development of management information and control systems, and diverse organisational as well as IT projects. The new agreement on the cross-guarantee system (*Haftungsverbund Neu*) enables the savings banks to fully exploit the benefits of cooperating with Erste Bank Oesterreich and underpins advanced product development, improved sales and a common market presence.

Highlights in 2010

Strict cost management and leading advisory competence. Recognising and realising cost-cutting potential was a key focus in 2010. Apart from cost saving initiatives related to other administrative expenses, a personnel benchmarking system was set up. Through this, the resource allocation for tasks was analysed, compared within the saving banks, and optimisation possibilities were identified. The project's results led to higher efficiency and will enable the savings banks to intensify customer service. Additionally during the last few years, the technical potential for centralised services has been created. The project *s Finanzierungsservice* lowered the sales force administrative workload by shifting internal tasks to a central back office. The core functions of financing (advisory and decision-making) remain with the customer account managers as local services. A structured manual for advisory services, *Financial Check*, was produced to ensure the highest quality standards for advisory services. Flexible opening hours – week-days from 0700 to 1900 hours – give customers access to the savings banks in line with their needs.

Improved evaluation of customer satisfaction. Market leadership will only be achieved through superior advisory and service quality. Therefore, a survey of customer satisfaction with banks and branch offices was conducted by telephone interviews over a period of one year. Interviews were conducted with retail as well as SME customers and professionals. Additionally, a comparison of retail customer satisfaction with competitors was carried out. Reports produced throughout the year at several levels enabled the savings banks to quickly derive concrete measures to improve customer satisfaction. The importance of service quality for the savings banks was also highlighted by including it as a factor in the sales award covering all savings banks.

Cooperation supports market presence. The cooperation with OMV Österreich was another tool to help achieve market leadership. As of the first half of 2010, Erste Bank Oesterreich and the savings banks offered their products and services at 170 OMV gas stations with *VIVA shops*. This improved services for existing customers and opened the way to joint marketing activities aimed at acquiring new customers. Since mid-2010, Erste Bank Oesterreich and the savings banks have also issued their own credit card, the *s Kreditkarte*. The joint development of products will enable a faster and more flexible response to customer needs.

Enhanced private banking capabilities. Together with the private banking team of Erste Bank Oesterreich, the savings banks aim to strengthen their private banking competence and increase market visibility vis-a-vis their clients. To ensure collaboration within the savings bank sector and to raise customer awareness, a new cooperation model was agreed on with 26 saving banks in 2010. The cooperation agreement includes joint advertising, the creation of a joint private banking logo for Erste Bank Oesterreich and the savings banks, closer collaboration with employees at branch offices, and standardised career training.

Expansion of market share in municipal business. The goal of the campaign targeting municipalities *(s Kommunaloffensive)* started in 2010 is to increase market share in the municipal business by establishing long-term customer relationships. A central component of the campaign is an interest burden management tool for municipalities. This instrument includes extensive consulting for municipalities regarding their debt portfolios and interest expenses. Municipalities receive a detailed analysis of their debts, a sensitivity analysis in relation varying interest rates, and a comparison with other municipalities. The municipalities welcomed these services and expressed strong interest.

Standardised controlling instrument. As of the beginning of 2010, a standardised controlling and steering instrument – the Group Performance Model – has become available at all savings banks. The led to a standardisation of calculation methods across Erste Group and enabled the comparison between business areas. Based on this data, joint reports and indicators for benchmarking were defined, analysed and used as a starting point for additional measures. A central team of specialists has been deployed to support the savings banks with their routine data processing tasks. This will steadily improve data quality and enable the efficient production of business reports.

Financial review

in EUR million	2010	2009
Pre-tax profit	131.6	-6.6
Net profit after minority interests	-5.2	-3.7
Operating result	459.3	488.0
Cost/income ratio	67.0%	65.2%
Return on equity	n.a.	n.a.
Customer loans	37,268	35,853
Customer deposits	33,099	32,502

Net interest income declined by EUR 15.7 million, or 1.6%, from EUR 957.1 million in 2009 to EUR 941.4 million. Net commission income rose by EUR 28.0 million or 7.1%, from EUR 393.6 million to EUR 421.6 million in 2010. This improvement was mainly a result of higher income from the securities and insurance business. The net trading result declined by EUR 23.1 million or 45.8% from EUR 50.3 million in the previous year to EUR 27.2 million, primarily because income earned from interest rate derivatives in the previous year did not recur in 2010. In conjunction with the rise in operating expenses by EUR 17.8 million or 2.0% to EUR 930.9 million, the operating result decreased by EUR 28.7 million or 5.9%, from EUR 488.0 million to EUR 459.3 million. The cost/income ratio deteriorated from 65.2% to 67.0% in the current year.

Risk provisions improved by EUR 28.0 million or 8.5%, from EUR 331.3 million in 2009 to EUR 303.3 million in 2010. The other result improved significantly by EUR 138.9 million from EUR -163.3 million in 2009 to EUR -24.4 million mainly due to write-downs on securities not held in the trading portfolio in 2009. Net profit after minorities declined by EUR 1.5 million, from EUR -3.7 million to EUR -5.2 million.

Credit risk

Total exposure in the savings banks segment increased in 2010 by 5.8%, from EUR 49.2 billion to EUR 52.0 billion. Customer loans grew at a slightly slower pace of 3.9% to EUR 37.3 billion. The high share of loans – almost one-fifth – extended to professionals, self-employed persons and small businesses is a feature of the business of the Austrian savings banks, and reflects the structure of Austria's economy, which in international comparison has a very high share of small and medium-sized businesses. The increase in the share of foreign currency loans by one percentage point to 23% was due exclusively to the near 20% appreciation of the Swiss franc versus the euro.

In line with the development of the economy in Austria, the quality of the credit portfolio improved slightly during 2010. The NPL ratio based on customer loans decreased by 0.4 percentage points to 7.1% and performing loans migrated significantly to better risk classes. A breakdown by customer segment showed that it was mainly loans to retail customers and SMEs that drove the positive trend, while loans to corporates deteriorated slightly. NPL coverage by risk provisions improved considerably in 2010 and was 58.5% at year-end 2010.

ERSTE BANK OESTERREICH

Business profile. In addition to Erste Bank Oesterreich, the segment Erste Bank Oesterreich also includes the four savings banks in which Erste Bank Oesterreich holds majority stakes: *Salzburger Sparkasse, Tiroler Sparkasse, Sparkasse Hainburg-Bruck-Neusiedl* and *Weinviertler Sparkasse*. This segment also comprises the activities of Erste Group in the Austrian real estate and mortgage business. This covers private mortgages, financing for subsidised and non-subsidised housing projects as well as facility management and real estate brokerage. *s Bausparkasse*, the Austrian market leader in providing financing for both retail customers as well as non-profit and commercial developers, is among the most important operational entities in this respect. Furthermore, since 2005, *s Bausparkasse* is responsible for the mortgage bond transactions of Erste Bank Oesterreich. The real estate broker *s REAL* with its 84 offices in Austria, and *s Wohnbaubank*, a bank specialising in housing loans also play a key role.

Business review

Strategy. Erste Bank Oesterreich, together with its own four savings banks, aims to provide its customers with a one-stop-shop-solution for all financing and investment needs. Its strategic focus is on strengthening its market position and achieving market leadership jointly with the savings banks. The bank aims to grow by acquiring new customers and intensifying customer relationships, especially in the affluent private individuals segment, among the self-employed and SME customers. It seeks to be the first choice for small and medium-sized enterprises needing advice on financial matters and hopes to establish long-term relationships based on the spirit of partnership. In the area of private banking and asset management, the focus is on offering customers competitive products and services through a team of highly-trained advisors, and to constantly improve these jointly with product specialists and portfolio managers.

Highlights in 2010

New management structure at branch offices. Branch office operations were streamlined as of 1 October 2010 to ensure an improvement in services, higher advisory quality and a greater ability to adjust to local markets and customer needs. State directorates were reduced from 6 to 4 and branch directorates from 42 to 25; this means that there is one director responsible for all branch offices of a municipal district. The heads of branch offices were strengthened and now have more decision-making powers. Administrative tasks were reduced and communication routes shortened: The branch offices now work more closely with customers and respond directly to their needs. The constant scrutiny of all workflows, the permanent efforts to consolidate and simplify processes in order to concentrate on customer service, all serve this goal.

***s Versicherung* offers attractive private retirement schemes *s Privat-Pension*.** The financial crisis and the resulting insecurity have placed the topic of individual retirement saving at centre stage. The *s Privat-Pension* with an additional bonus was launched in 2003 and sold over 170,000 policies, thus becoming a highly sought-after retirement product. After the changes to the legal framework for state-subsidised retirement schemes, *s Versicherung* adjusted its product accordingly and, inter alia, introduced a life cycle model with a reduced equity share depending on age. Erste Bank Oesterreich responded to the rising demands of its customers and acquired not only many new customers for private retirement products, but also offered customers with existing *s Privat-Pension* policies the option to switch to the new product. Almost 80% of these customers accepted the offer.

Retail asset management for the general public. Erste Bank is a pioneer in the area of asset management for retail customers. The product *Premium PLUS* introduced in 2006 was opened to all customers of Erste Group who can now benefit from the innovative value preservation concept of the *Premium PLUS* product. Depending on the investment horizon of the customer, the goal is to achieve positive returns even in a negative market environment. The assets are managed in cooperation with LGT Capital Management, the bank of Liechtenstein's royal family. In 2010, assets under management rose to around EUR 380 million, from EUR 290 million in 2009.

New, innovative sales channels. A strategic goal of Erste Bank Oesterreich is growth through new customer acquisition. Following the successful collaboration with Tchibo in the previous years, joint projects were carried out in the period under review with the telecommunication company Orange, baby food producer HIPP, McDonalds and Ferrero. Moreover, in April 2010, a new strategic partnership was formed by Erste Bank Oesterreich and OMV Österreich. The objective of this partnership is to expand the range of services offered, acquire new customers and enlarge the network for Erste Bank Oesterreich customers. 170 OMV gas stations now sell simple, self-explanatory and attractive products of Erste Bank Oesterreich. This opened up a completely new distribution channel. At the start, 10,000 *Gute-Fahrt-Boxen* ('*Have a safe trip*'-boxes) were sold at these banking outlets which included a voucher for opening an *s Kapital*-savings account at very attractive terms. With this and additional offers, Erste Bank Oesterreich attracted about 1,500 new customers within a very short time.

Best private banking in Austria. The British financial magazine Euromoney named Erste Bank Oesterreich the best financial institution for private banking in Austria in 2010. The fact that this award is based on a survey conducted within the industry is especially noteworthy. Private banking of Erste Bank and Sparkassen reported assets under management of around EUR 30 billion in 2010, which corresponds to a market share of 25%. This made Erste Bank Oesterreich the market leader in this segment at year-end 2010.

Financial review

in EUR million	2010	2009
Pre-tax profit	220.2	180.0
Net profit after minority interests	166.9	129.1
Operating result	394.3	328.3
Cost/income ratio	60.6%	65.4%
Return on equity	14.6%	11.4%
Customer loans	27,438	26,137
Customer deposits	27,796	26,841

The operating result rose by 20.1%, or EUR 66.0 million, to EUR 394.3 million in 2010. This was largely due to the significant rise in net commission income by EUR 42.4 million, or 14.0%, from EUR 302.8 million in the previous year to EUR 345.2 million, which in turn was mainly driven by the excellent securities business. Net interest income rose from EUR 637.5 million by EUR 6.8 million, or 1.1%, to EUR 644.3 million in 2010. The net trading result improved by EUR 2.1 million (+22.6%), from EUR 9.4 million in 2009 to EUR 11.5 million. As a result of ongoing cost-cutting measures general administrative expenses declined by EUR 14.6 million or 2.4%, from EUR 621.4 million in the previous year to EUR 606.8 million. The solid operating result led to a significant improvement in the cost/income ratio from 65.4% in 2009 to 60.6%.

Risk provisions decreased by EUR 3.1 million, or 2.0%, from EUR 151.4 million to EUR 148.3 million. The EUR 28.9 million decline in the item other result, from EUR 3.2 million in the previous year to EUR -25.7 million, was mainly attributable to write-downs on securities not held in the trading portfolio. Net profit after minorities rose by EUR 37.8 million, or 29.3%, from EUR 129.1 million to EUR 166.9 million; return on equity rose to 14.6% from 11.4% in the previous year.

Credit risk

Total exposure of the Erste Bank Oesterreich segment increased in 2010 by 6.6% to EUR 37.5 billion, while customer loans grew by 5.0% from EUR 26.1 billion to EUR 27.4 billion. The share of Erste Bank Oesterreich in the total loan portfolio of Erste Group was 20.7% at year-end 2010, up 0.5 percentage points on 2009. A breakdown by customer group revealed an increase in lending to the public sector at the expense of loans to corporate customers. Compared to the savings banks, Erste Bank Oesterreich's share of loans to professionals, self-employed and micro businesses at 9.7% was much lower.

Although the bank stopped granting foreign currency loans to retail customers in the autumn of 2008, the share of foreign currency loans widened due to the depreciation of the euro vs. the Swiss franc in 2010, and at the end of December, stood at 18.0%. The ratio of secured-to-unsecured-loans remained unchanged at 2:1.

Unlike the credit portfolios in Central and Eastern Europe, the credit portfolio of Erste Bank Oesterreich improved in 2010. The NPL ratio based on customer loans decreased from 4.7% to 4.1%; furthermore, a shift to better risk classes was observed among performing loans. Improvements in credit quality were seen in all customer segments but were especially strong among corporates. The resilience shown by Austria's small and medium-sized businesses in withstanding the effects of the global economic crisis was remarkable.

CZECH REPUBLIC

Business profile. The Czech Republic segment includes the retail and SME business of Česká spořitelna and its subsidiary operations. Česká spořitelna is the leading retail bank in the country and the largest among Erste Group's operations in CEE. It serves some 5.3 million retail, SME and large corporate clients; it operates a network of 667 branches and 1,312 ATMs. Česká spořitelna has issued more than 3.2 million bank cards, including almost half a million credit cards. The bank's building society, pension fund and factoring subsidiaries also occupy leading positions in their respective fields.

Economic review

The Czech economy emerged from recession in 2010 driven mainly by the export-based manufacturing sector. The open Czech economy clearly benefited from the industry-driven recovery in Germany, the country's main trading partner. The car and manufacturing industries continued to play a crucial role within exports. Growth became more balanced towards the second half of the year, with household consumption picking up as well. Economic growth was also boosted by two stimulus packages introduced in 2009 and valued at 2% of the country's GDP. Overall, real GDP increased by 2.3% in 2010, while GDP per capita stood at EUR 14,000. After large scale redundancies in 2009, labour market conditions improved during 2010, but by year-end, the unemployment rate had increased by 0.4 percentage points to 9.0%.

Due to the low level of public debt compared to the EU-15, the Czech government did not implement any substantial fiscal consolidation measures in 2010. As a result, the budget deficit remained at a relatively high 5.3% of GDP. As of 2011, the government is expected to introduce cuts in public sector non-capital spending including a 10% reduction in the public wage bill and cuts in social spending. This is set to be complemented by a slight increase in taxes. Thanks to the solid export performance, the trade balance closed 2010 with a surplus.

Inflation bottomed out in the last quarter of 2009 and increased slightly during 2010. In the first half of the year, rising oil prices, the January VAT increase and the tobacco excise tax rise played a role in the development of prices, while in the second half, higher food prices contributed to rising inflation. As a result, average consumer prices in 2010 increased by 1.5%. The Czech koruna was volatile in the first half of the year driven mainly by external factors such as the sovereign debt crisis that engulfed southern Europe, but strengthened against the euro. The second half of the year brought a much more stable exchange rate environment. The Czech National Bank cut the benchmark interest rate only once in 2010 when it surprisingly decided to reduce the rate in May by 25 basis points to a historic low level of 0.75%.

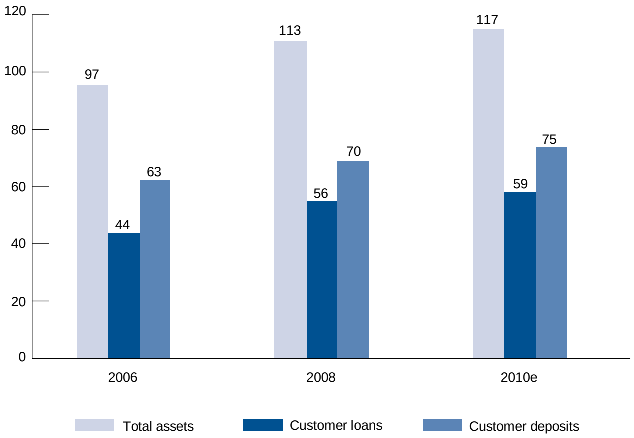
Key economic indicators – Czech Republic	2007	2008	2009	2010e
Population (ave, million)	10.3	10.4	10.5	10.5
GDP (nominal, EUR billion)	127.5	147.7	137.2	146.4
GDP/capita (in EUR thousand)	12.4	14.2	13.1	13.9
Real GDP growth	6.1	2.3	-4.0	2.3
Private consumption growth	4.9	3.5	-0.2	0.9
Exports (share of GDP)	70.2	66.8	58.0	63.7
Imports (share of GDP)	66.8	64.1	53.5	59.6
Unemployment (Eurostat definition)	6.6	5.4	8.6	9.0
Consumer price inflation (ave)	2.8	6.4	1.1	1.5
Short term interest rate (3 months eop)	4.1	3.6	1.5	1.2
EUR FX rate (ave)	27.8	25.0	26.4	25.3
EUR FX rate (eop)	26.5	26.9	26.4	24.8
Current account balance (share of GDP)	-3.2	-0.6	-1.0	-2.4
General government balance (share of GDP)	-0.7	-2.7	-5.8	-5.3

Source: Erste Group.

Market review

In 2010, the Czech banking market remained one of the most liquid and well capitalised markets in the CEE region. A system-wide loan to deposit ratio of 78% at year-end 2010 is a case in point. Due to the solid fundamentals of the Czech banking market, the government did not have to provide any financial support to the sector over the past years. Growth of the banking market, however, was significantly influenced by the macroeconomic developments resulting in constant customer loans and deposits. Foreign exchange-based lending remained insignificant compared to some other CEE countries with higher interest rates. The NPL ratio for the sector increased to 6.6% but was lower than in other parts of the CEE region. Customer deposits as a percentage of GDP remained among the highest in CEE at 75%, driven by the highly developed savings culture in the Czech Republic.

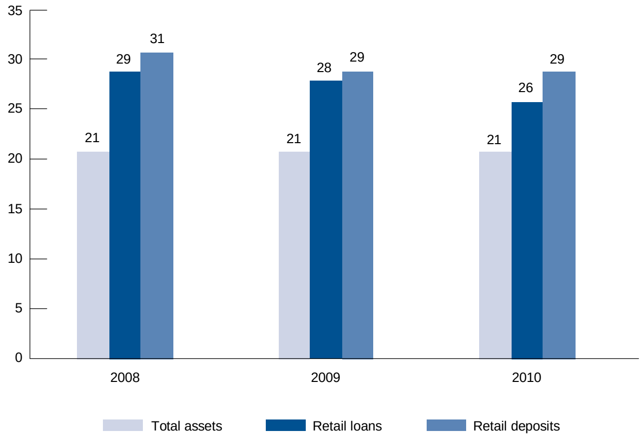
Financial intermediation – Czech Republic (in % of GDP)



Source: Czech National Bank, Erste Group.

Česká spořitelna maintained its position as the largest retail bank in 2010. The bank's retail market shares ranged between 25% and 30% while its share in the corporate segment remained lower at around 20%. Overall, total asset market share increased slightly to 21.3%. Česká spořitelna also kept its No. 1 position in the payment card market with a market share of 36%.

Market shares – Czech Republic (in %)



Source: Czech National Bank, Erste Group.

Business review

Strategy. Česká spořitelna's strategy is focused on growing with the evolving needs of a retail customer base that is quickly becoming wealthier. At the same time, the bank caters for the mass market and offers a broad range of services to corporate and public sector customers. In line with this balanced and real economy-focused business model, Česká spořitelna aims to retain its leading market positions in all key product segments while not losing sight of further improving client satisfaction.

Highlights in 2010

Česká spořitelna enjoys strong deposit inflows. At 3.5%, customer deposit growth accelerated markedly after a flat performance in 2009. This development was driven by rising inflows from municipalities and retail customers. In light of limited demand for loans, Česká spořitelna responded to this trend by fine-tuning its offering of savings products. The products garnering the highest interest continued to be the *Golden Deposit*, a savings product with a guaranteed yield, and the *Perfect Deposit*, which pays out the first half of the life-time yield at inception. The *Structured Premium Deposits* and the *Clever Savings Plan* enabled customers to deposit cash regularly and take advantage of value added services whilst having immediate access to their funds.

Marginal decline in loan volumes. Despite the slowly recovering economy, customer loan volumes declined slightly in 2010. This was mainly due to the fact that while export-driven industries thrived, domestic demand remained weak. Within the retail loan book there was a small increase in consumer loans while housing loans declined due to decreased activity in the real estate market. Despite these factors, Česká spořitelna maintained its leading position in the mortgage market. In line with the still fragile economy, the sale of loan insurance policies, i.e. policies that cover repayment in case of unemployment, rose significantly. Overall, the bank's loan-to-deposit ratio improved to below 70%.

Focus on the affluent segment. In 2010 Česká spořitelna's customers continued to become wealthier and more sophisticated. It was therefore a key goal of the bank to retain existing and attract new customers, while still providing affordable services for mass-market clients. Accordingly, Česká spořitelna strengthened its presence in the premier banking market segment by establishing its own brand *ČS Premier* and acquiring three Prague- and Brno-based branches from HSBC. *ČS Premier* is operated separately from the existing branch network and has its own product and service portfolio. In line with its strong overall market position, Česká spořitelna remained the largest player in this segment. At the end of 2010 there were three *ČS Premier* outlets with plans to open another 20 branches within 5 years.

Further success of flexible products. Product choice and flexibility remained the key elements in ensuring customer satisfaction at Česká spořitelna in 2010. Building on the success of the *Personal Account*, a product introduced in 2007 that enables clients to freely choose the services they need, Česká spořitelna launched *Personal Account Student* for full-time students aged 15 to 30 and *Personal Account Junior* for children between the ages of 8 and 15. By the end of 2010 the number of *Personal Account* users has reached 2 million or about 20% of the Czech population. Via a new *Benefits Programme*, Česká spořitelna continued to reward active users of the *Personal Account* and other bank services. ČS also introduced the new ČS *Business Account* that offers small businesses and corporate clients the ability to freely select services based on their requirements. In this way, clients only pay for the services they actually use. In addition to businessmen and companies, the *Business Account* is also offered to self-employed persons, housing co-operatives, apartment unit owner associations and tradesmen.

Leadership in electronic banking. Česká spořitelna maintained its leadership position in the area of electronic banking: the number of active private individual users of its direct banking (via internet or phone) offering *SERVIS 24* exceeded one million clients, comfortably making ČS the largest player in the market. Together with *BUSINESS 24's* corporate clients the total number of users reached 1.3 million while the number of transactions grew by 5% in 2010.

International and local recognition. As in previous years, Česká spořitelna received a number of local and international awards in 2010. In the local Fincentrum Bank of the Year survey, Česká spořitelna defended the title of "The Most Trustworthy Bank in the Czech Republic" for the seventh consecutive time and was named "The Bank of the Year 2010". Among international awards, Česká spořitelna won "The Safest Bank 2010 in Central and Eastern Europe" as judged by the Global Finance magazine. The bank's client call centre was recognised for providing the best customer service in an international competition of contact centres in the EMEA region organised by ContactCenterWorld.com, while telephone banker Jaroslav Flek was named the best customer service agent.

Financial review

in EUR million	2010	2009
Pre-tax profit	467.4	457.8
Net profit after minority interests	378.9	345.7
Operating result	916.6	853.1
Cost/income ratio	43.6%	44.9%
Return on equity	37.0%	36.5%
Customer loans	17,486	16,721
Customer deposits	24,576	22,415

In 2010, the operating result of the Czech retail and SME business improved by EUR 63.5 million or 7.4% (currency-adjusted: +2.7%), from EUR 853.1 million to EUR 916.6 million. This was mainly attributable to higher net commission income on the back of higher earnings in the retail segment and from insurance brokerage, and an improved net trading result. Overall, net commission income rose from EUR 429.5 million in the previous year by EUR 47.3 million or 11.0% (currency-adjusted: +6.1%) to EUR 476.8 million. The net trading result benefited from favourable exchange rate movements and rose by EUR 23.9 million or 61.9% (currency-adjusted: 54.8%), from EUR 38.6 million to EUR 62.5 million. Net interest income grew by EUR 6.4 million or 0.6% to EUR 1,087.2 million (2009: EUR 1,080.8 million). The currency-adjusted decline of 3.8% was caused by lower market interest rates and lower loan growth.

Compared to the previous year, operating expenses rose by EUR 14.0 million, or 2.0%, to EUR 709.8 million. However, currency-adjusted, operating expenses declined by 2.5% as a result of rigorous cost-cutting. The significant increase in risk costs by EUR 77.7

million or 27.0%, (currency-adjusted: +21.4%), from EUR 288.1 million in 2009 to EUR 365.8 million, reflected rising provisioning requirements in all business segments due to the economic environment. The item other result was up by EUR 24.0 million or 22.3% (currency-adjusted: +25.7%), from EUR -107.3 million in the previous year to EUR -83.3 million. At EUR 32.6 million, revaluations required for real estate investments were much lower in 2010 than in the previous year.

Net profit after minorities rose by EUR 33.2 million or 9.6% (currency-adjusted: +4.8%), from EUR 345.7 million to EUR 378.9 million. The cost/income ratio was 43.6% (2009: 44.9%); return on equity was 37.0% (2009: 36.5%).

Credit risk

Total exposure in the Czech Republic segment amounted to EUR 27.6 billion at year-end 2010, up almost EUR 700 million year-on-year. Loans to customers increased during the reporting period by 4.6% to EUR 17.5 billion. While loans to households increased from EUR 9.4 billion to EUR 9.9 billion year-on-year, loans to corporates went up from EUR 6.7 billion to EUR 6.9 billion; loans to the public sector remained stable at EUR 0.7 billion. The segment Czech Republic accounted for more than 13% of consolidated customer loans at year-end 2010. In terms of loan volume, the Czech Republic is the most important market for Erste Group after Austria.

In the Czech Republic, loans are granted almost exclusively in local currency. The share of foreign currency loans at year-end 2010 was only 4.1% and foreign currency loans were only extended to corporate customers. The tighter lending criteria introduced in 2009 − especially for commercial real estate financing and new working capital facilities to small and medium-sized businesses − were kept unchanged.

Compared to other countries in Central and Eastern Europe, the negative effects of the global financial and economic crisis were relatively minor in the Czech Republic. This development and effective risk management contained the deterioration of the credit portfolio. This was particularly true for private consumer and mortgage loans. A trend reversal in corporate loan quality occurred in the last quarter of the year, ending the negative development that had prevailed for a considerable time. The NPL ratio based on customer loans rose by 1.4 percentage points to 6.0% in 2010. The NPL coverage ratio rose significantly from 66.2% at year-end 2009 to 70.0%.

ROMANIA

Business profile. The Romania segment includes the retail and SME business of Banca Comercială Română (BCR) and its subsidiaries. BCR offers a complete set of retail and corporate banking services through a network of 668 branches and 48 commercial centres as well as internet and phone banking. In addition, it operates the largest national network of ATMs and POSs – more than 2,200 and approximately 17,800 units, respectively. With total assets of EUR 17.3 billion and 4.6 million customers as at year-end 2010 BCR is the leader in the Romanian banking market. BCR is also top-ranked in leasing and well-positioned in the pension fund and brokerage business.

Economic review

After the deep recession in 2009, the Romanian economy continued to struggle in 2010. However, many economic indicators clearly improved in 2010. As one of the least open economies in the region, with exports accounting for only one fourth of the country's GDP, Romania benefited less than other CEE countries from the economic recovery in Western Europe. The biggest contributor to the Romanian economy, domestic consumption remained subdued throughout 2010. In addition, the economy was negatively impacted by the austerity package implemented by the government in July. The package, a pre-requisite for receiving further IMF/EU loans, included a 25% cut in public wages, a five percentage point hike in VAT to 24% and the reduction of some social benefits and subsidies. One of the mitigating factors was the favourable performance in the agricultural sector which accounted for 8% of the country's GDP, much higher than in other CEE countries. All in all, Romania's real GDP fell by 2.1% in 2010 with GDP per capita equalling EUR 6,000 in 2010. Employment showed some improvement with the number of registered unemployed persons declining by 80,000 in 2010. The unemployment rate stood at 7.3% at the end of the year.

The current account deficit widened marginally in 2010 mainly due to the decrease in remittances from Romanians working abroad and lower inflows of EU funds. A share of 40% of the current account deficit was covered by foreign direct investments (FDI), which targeted sectors with high growth potential such as energy, information technology and agriculture. Overall, FDIs remained weak mainly due to the wait-and-see stance taken by investors as a result of the political uncertainty and the generally sluggish economy. Due to the harsh austerity measures, the budget deficit was contained at 6.8% of GDP in 2010, as agreed with the IMF.

Inflation was in line with expectations in the first half of the year, while prices rose in the second half of the year due to the VAT increase. However, this effect was partly offset by the decline of household purchasing power and the good agricultural harvest. Overall, consumer price inflation averaged 6.1% in 2010. In line with this development, the Romanian National Bank cut the base rate to a historic low of 6.25% in the first half of the year, but left it unchanged thereafter. The EUR/RON exchange remained volatile during the year and hit a new low at 4.40 in June, as companies and households converted their RON-denominated deposits into FX deposits. The disbursement of the fifth IMF tranche, though, helped to stabilise the currency in the range of 4.2 to 4.3 in the second half of the year.

Key economic indicators – Romania	2007	2008	2009	2010e
Population (ave, million)	21.6	21.6	21.5	21.5
GDP (nominal, EUR billion)	124.8	139.8	115.9	121.4
GDP/capita (in EUR thousand)	5.8	6.5	5.4	5.7
Real GDP growth	6.3	7.3	-7.1	-2.1
Private consumption growth	10.3	9.4	-9.2	-3.6
Exports (share of GDP)	23.7	24.1	25.1	30.7
Imports (share of GDP)	41.2	40.8	33.5	38.5
Unemployment (Eurostat definition)	6.4	5.8	6.9	7.3
Consumer price inflation (ave)	4.8	7.9	5.6	6.1
Short term interest rate (3 months eop)	8.4	15.5	10.7	6.2
EUR FX rate (ave)	3.3	3.7	4.2	4.2
EUR FX rate (eop)	3.6	4.0	4.2	4.3
Current account balance (share of GDP)	-13.4	-11.6	-4.2	-4.7
General government balance (share of GDP)	-2.5	-5.4	-8.6	-7.0

Source: Erste Group.

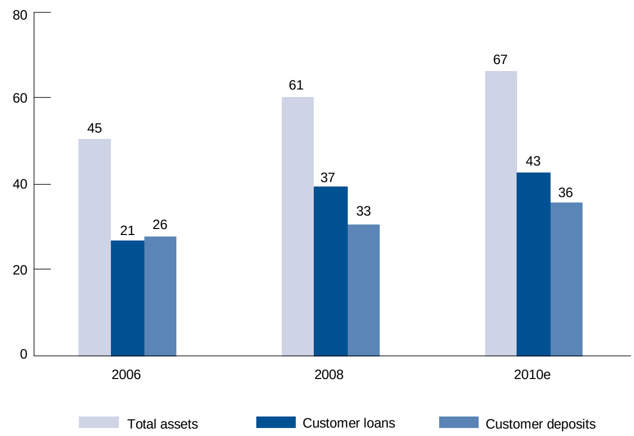
Market review

In 2010 the Romanian banking market was negatively impacted by the economic development of the country. Profitability of the banking sector declined as a result of higher loan losses and lower new business volumes. Accordingly, a number of smaller banks became unprofitable in 2010. Importantly, however, the Romanian banking market remained liquid and well capitalised in 2010. Customer loans grew only by 4.4% due to very low demand and the cautious lending policies applied by banks. The only loan growth driver was "Prima Casa", a government-guaranteed euro-based mortgage programme introduced in 2009. As the programme proved to be very successful, the government decided to launch a second tranche in February 2010 totalling EUR 700 million. Under the new scheme the state guarantee was raised to a maximum of EUR 75,000 for new family homes in order to support the country's real estate market.

At a growth rate of 6.9%, retail deposits continued to drive the Romanian deposit market, while corporate deposits rose by only 2.5% as businesses shifted towards buying government securities. FX-based deposits accounted for 36% of total customer deposits and remained a significant funding source for FX loans. These euro-based deposits were supported by remittances from Romanians working abroad. Customer deposits were up by 5.0% in 2010, marginally outgrowing loans and resulting in an improvement in the loan-to-deposit ratio to 120% at the end of 2010.

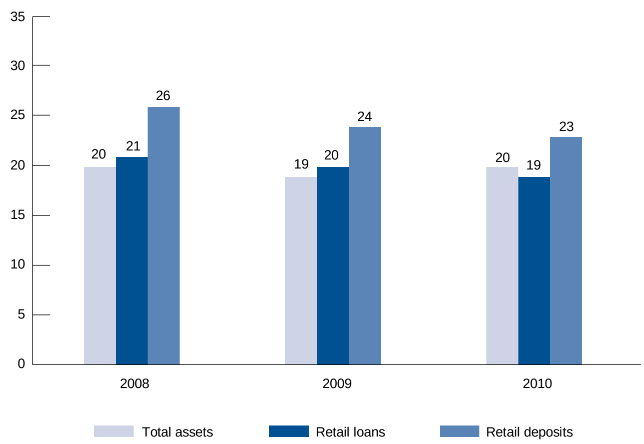
In a difficult market environment BCR maintained its leadership position in all product segments. With a market share of 40%, the bank also maintained its No. 1 position in the "Prima Casa" mortgage segment, the only growth driver in the lending market in 2010. This was complemented by an increasing market share in municipality financing.

Financial intermediation – Romania (in % of GDP)



Source: National Bank of Romania, Erste Group.

Market shares – Romania (in %)



Source: National Bank of Romania, Erste Group.

Business review

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

Highlights in 2010

Further improvement in customer satisfaction. BCR continued to focus on improving customer service and increasing customer satisfaction in 2010. Aiming to standardise the sales process and enhance the service, BCR launched a branch network-wide programme called *Sales Force Effectiveness (SFE)* for its retail and SME customers. This programme provides branch managers and sales people with an appropriate tool to better identify and serve customer needs. Moreover, BCR introduced a new sales force and customer care approach at branch network level, implementing a single point of contact concept for mass affluent retail customers. Similarly, a project that aims to optimise the service for SME clients was launched.

Operating in a low growth environment. As part of BCR's lending strategy in a low growth environment certain segments of the retail and corporate business activities were prioritised: large corporate lending on the one hand and secured retail lending on the other. The main focus was to originate new loans with a favourable risk-reward profile. In the retail segment, the driver of loan growth was the state-guaranteed, euro-based 'Prima Casa' mortgage scheme in which BCR achieved a 40% market share in 2010. Another focal point was the deposit business, in which the bank also successfully managed to maintain its market position. Overall, BCR's loan-to-deposit ratio improved further in 2010 to 138%.

Continued focus on risk management. In 2010 BCR implemented a scoring system based on customer behaviour and started development work on a new risk-adjusted pricing model for lending products. Going forward these measures should have a positive effect on asset quality. The past year also saw a continuation of special rescheduling and restructuring procedures for both retail and corporate customers, helping them to cope with the difficult economic environment.

Advice on, and participation in EU-funded projects. Building on its strength in pre-accession funding and in lobbying for an improved structural funds mechanism, BCR continued to play an important role in advising on and co-financing EU-funded projects. In fact, BCR advised on 41% of all projects approved for EU financing in 2010. In addition to providing consultancy services on the best and most cost-effective funding mix as well as fostering investment activity in the overall economy, the bank also helped clients to improve their business models.

Financial review

in EUR million	2010	2009
Pre-tax profit	24.8	129.4
Net profit after minority interests	8.5	73.5
Operating result	581.7	644.9
Cost/income ratio	39.2%	37.3%
Return on equity	1.6%	13.4%
Customer loans	11,248	11,190
Customer deposits	7,793	7,297

Net interest income in the Romanian retail and SME business decreased in 2010 by EUR 38.2 million or 4.6% (currency-adjusted: -5.2%), from EUR 836.8 million to EUR 798.6 million, due to the changing loan book mix – new retail loans were mainly related to state-guaranteed mortgages, while consumer loans declined in importance – as well as the sale of non-performing loans and the introduction of more stringent consumer protection legislation. The latter also impacted net commission income, which decreased by 30.4 million or 18.4% (currency-adjusted: -19.0%), from EUR 164.8 million to EUR 134.4 million. The net trading result declined by EUR 2.6 million or 10.1% (currency-adjusted: -10.7%), from EUR 26.6 million in 2009 to EUR 24.0 million. Operating expenses declined by 2.1% (currency-adjusted: -2.8%), from EUR 383.3 million in 2009 to EUR 375.2 million. The cost/income ratio equalled 39.2% against 37.3% in 2009.

The operating result decreased from EUR 644.9 million to EUR 581.7 million, a reduction of EUR 63.2 million or 9.8% (currency-adjusted: -10.4%). Risk provisions of EUR 506.7 million in 2010 were EUR 25.7 million or 4.8% (currency-adjusted: -5.5%) lower than in 2009.

The deterioration in the item other result by EUR 67.2 million, from EUR 17.0 million to EUR -50.2 million, was caused mainly by positive one-time effects in 2009, but also by write-downs – primarily in the leasing business – in the current year. Net profit after minorities decreased by EUR 65.0 million (-88.5% or currency-adjusted: -88.6%), from EUR 73.5 million to EUR 8.5 million. Return on equity was 1.6% compared to 13.4% in the previous year.

Credit risk

Total exposure in the Romania segment was almost EUR 15.3 billion at year-end 2010 (year-end 2009: EUR 14.3 billion). Customer loans increased by 0.5% to EUR 11.2 billion and accounted for 8.5% (year-end 2009: 8.7%) of Erste Group's total customer loans. The subdued loan growth was primarily attributable to the overall economic environment with drastic austerity measures in the public sector and the continued decline in gross domestic product. The decrease in consumer loans was offset by higher lending to the public sector.

The share of foreign currency loans in the credit portfolio increased from 58.7% to 62.1% and consisted almost entirely of euro loans. With the support of new scoring models, credit standards were tightened over the past years. Furthermore, efforts to avoid credit defaults were intensified, with a special focus on restructuring loans of private and corporate customers to adjust to the deteriorated economic situation. Minor parts of the non-performing loan portfolio were sold on the secondary market.

The sustained recession caused a further deterioration of credit quality, although the negative dynamic slowed considerably versus 2009. The share of the top two risk categories decreased from 71.5% to 65.8% of total customer loans; while the NPL ratio based on customer loans increased from 13.1% to 18.0%. At year-end, corporate loans continued to be of slightly better quality than retail loans despite a faster deterioration in asset quality during the year. The development was particularly negative in the subsegment of the self-employed and small businesses, with the share of this subsegment decreasing and being only of minor significance at less than 7% of the total credit portfolio. As risk provisions were significantly increased by a net allocation of EUR 267 million, reserves were adequate for covering any credit losses. The NPL coverage ratio at year-end was 54.4%.

SLOVAKIA

Business profile. The Slovakia segment encompasses the retail & SME business of Slovenská sporiteľna (SLSP) and its subsidiaries. Slovenská sporiteľna, the formerly state owned savings bank, is the long standing retail market leader and is one of the top players in the corporate segment. Slovenská sporiteľňa also occupies leadership positions in asset management, leasing and factoring. It serves some 2.5 million clients, or about half of the Slovak population, through a network of 291 branches and more than 705 ATMs.

Economic review

Slovakia, one of the most open economies in the CEE region, was among the main beneficiaries of the recovery in Western Europe in 2010. Economic growth, which due to the base effect was even stronger in the first half of 2010 than in the second, was clearly driven by external demand while domestic consumption remained subdued throughout the year. Exports rose by 22% in 2010 and were supported by rising industrial production. Newly-built production facilities, such as new factories commissioned by Volkswagen, computer equipment maker AU Optronics as well as the KIA engine plant contributed significantly to this development. Overall, real GDP in Slovakia rose by 4.1% in 2010, while GDP per capita advanced to EUR 12,100. The unemployment rate, one of the main problems in the country, increased to 14.4% in 2010.

The current account deficit in Slovakia deteriorated to 4.3% of GDP mainly due to a weaker trade balance, while the budget deficit remained at an elevated level because of lower tax revenues, higher social spending and initiatives to fight the crisis. As a result, the government adopted fiscal measures aimed at curbing the budget deficit, including a temporary hike of VAT to 20%, increased excise taxes on tobacco and alcohol, and lowered public sector expenditure.

Inflation remained low throughout 2010 with some acceleration taking place in the second half of the year mainly due to higher food prices. These were offset by weak demand, though. In 2010 Slovakia continued to benefit from low euro zone interest rates, following euro adoption in 2009.

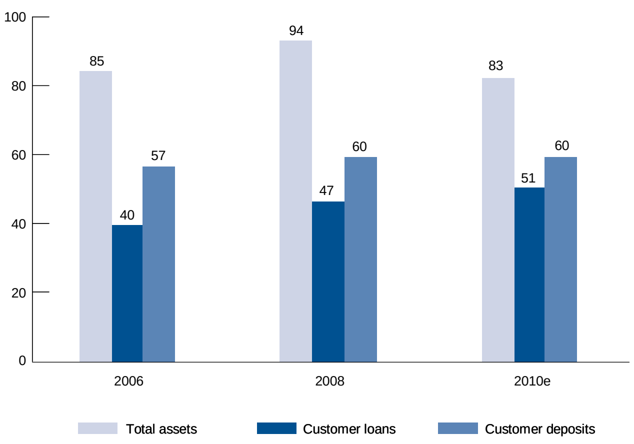
Key economic indicators – Slovakia	2007	2008	2009	2010e
Population (ave, million)	5.4	5.4	5.4	5.4
GDP (nominal, EUR billion)	54.9	64.5	63.1	65.9
GDP/capita (in EUR thousand)	10.2	11.9	11.6	12.1
Real GDP growth	10.5	5.8	-4.8	4.1
Private consumption growth	6.9	6.1	0.2	-0.3
Exports (share of GDP)	76.9	73.9	63.0	73.8
Imports (share of GDP)	78.1	75.0	61.5	73.5
Unemployment (Eurostat definition)	11.0	9.6	12.1	14.4
Consumer price inflation (ave)	2.8	4.6	1.6	1.0
Short term interest rate (3 months eop)	4.3	3.0	0.7	1.0
EUR FX rate (ave)	1.1	1.0	1.0	1.0
EUR FX rate (eop)	1.1	1.0	1.0	1.0
Current account balance (share of GDP)	-5.3	-6.6	-3.6	-4.3
General government balance (share of GDP)	-1.8	-2.1	-7.9	-7.5

Source: Erste Group.

Market review

The positive macroeconomic environment had a favourable impact on Slovakia's banking market. Customer loans grew by 5.2% in 2010 with the retail segment leading the way on the back of improved consumer confidence. Corporate loan volumes stayed flat year-on-year. Foreign currency lending remained insignificant. Following substantial deposit outflows in 2009, the first half of 2010 brought strong deposit inflows, resulting in an annual growth rate of 6.8%. Overall, the Slovak market remained one of the most liquid and well balanced banking sectors in the region with a loan-to-deposit ratio of 85%.

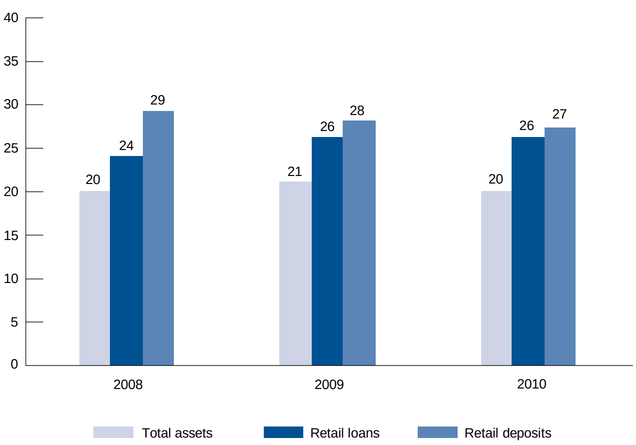
Financial intermediation – Slovakia (in % of GDP)



Source: National Bank of Slovakia, Erste Group.

In the improved banking market environment Slovenska sporitelna successfully maintained its leading market positions. The bank's total asset market share was above 20%, while it also continued to lead the market in customer loans and deposits. Slovenska sporitelna posted the largest market share gain in the housing loan segment, where its stake increased to a multi-year high of 25.8%.

Market shares – Slovakia (in %)



Source: National Bank of Slovakia, Erste Group.

Business review

Strategy. The strategic focus of Slovenská sporiteľňa remains on maintaining its leading market position in retail and SME banking, by building on its unique strength in retail funding, on its trustworthiness and on its distribution network. In addition, SLSP aims to strengthen its position in corporate banking. It is also committed to enhance the customer experience by improving accessibility and raise its operating performance by increasing efficiency.

Highlights in 2010

Broader market presence. In 2010 Slovenska spořitelna expanded its branch network by 12 units to 291 outlets. This move was complemented by employing additional relationship managers with a view to establish new and maintain existing client relationships. The bank also expanded its self-service activities: it installed an additional 45 ATMs across the country, bringing their total number to 705. In line with this development, the number of debit cards also rose from 1.2 million to 1.3 million in 2010. The number of credit cards remained insignificant.

Solid retail loan growth, continued deposit leadership. An excellent funding base and increasing demand enabled Slovenska spořitelna to grow retail loans by 12.9% in 2010. This growth was materially driven by housing loans, which accounted for more than two thirds of the retail portfolio at the end of 2010. Consumer loans also grew ahead of the market, but at a slower speed than in the previous year. While the retail business performed well, corporate loan volumes fell by 17.8%, mainly due to slowing demand from large corporate customers. The definition of a new corporate customer strategy, which should result in a much stronger presence in this segment going forward, also contributed to the reduction. Overall, customer loans declined slightly year-on-year. Despite the decrease in customer deposits in both the retail and corporate segments, Slovenska spořitelna remained the deposit market leader by a wide margin.

Focus on cost management. Following the organisational streamlining in 2009, Slovenska spořitelna continued to focus on cost management in 2010. To this effect the bank introduced efficiency measures in all key corporate centre functions, including personnel, IT and property management. Together with the strong topline performance this resulted in a further significant improvement in the cost/income ratio.

Financial review

in EUR million	2010	2009
Pre-tax profit	171.6	42.4
Net profit after minority interests	136.5	27.6
Operating result	315.2	249.1
Cost/income ratio	41.3%	50.0%
Return on equity	31.6%	6.0%
Customer loans	5,716	5,670
Customer deposits	7,144	7,145

The operating result in the Slovak retail and SME business rose by EUR 66.1 million or 26.5%, from EUR 249.1 million in 2009 to EUR 315.2 million. This positive development was driven by increased net interest income and lower operating expenses.

A consistent pricing policy together with solid volume growth in the retail segment contributed to the increase in net interest income, which rose by EUR 40.9 million, or 10.6%, from EUR 385.9 million in the previous year to EUR 426.8 million. Net commission income increased by 1.9% to EUR 106.6 million (2009: EUR 104.6 million). The net trading result decreased by EUR 4.3 million, from EUR 8.3 million to EUR 4.0 million in 2010. The reduction in operating expenses by EUR 27.4 million or 11.0%, from EUR 249.6 million to EUR 222.2 million, resulted largely from efficiency measures initiated in 2009. Accordingly, the cost/income ratio improved significantly from 50.0% to 41.3%. Risk provisions – which were negatively influenced by the economic environment especially in the second half of 2009 – improved by EUR 33.3 million or 21.2%, from EUR 156.5 million in the previous year to EUR 123.2 million. The item other result improved by EUR 29.8 million or 59.3% to EUR -20.5 million (compared to EUR -50.3 million in 2009) mostly because of the release of provisions no longer required.

Net profit after minorities rose fivefold by EUR 108.9 million, from EUR 27.6 million in the previous year to EUR 136.5 million. Return on equity of 31.6% was significantly better than the 2009 level of 6.0%.

Credit risk

Total exposure in the Slovakia segment amounted to EUR 9.4 billion at year-end 2010, 6.7% or almost EUR 0.7 billion lower than at year-end 2009. However, customer loans increased by 0.8% to EUR 5.7 billion at year-end 2010, accounting for 4.3% of Erste Group’s total customer loan volume. There was a significant shift in the portfolio from corporate loans to retail loans.

The loan portfolio consisted almost entirely of local currency loans; there were still no foreign currency loans to private individuals. Collateral coverage increased significantly in the past few years. In light of the deterioration in asset quality due to the economic downturn, new lending to certain industries, such as for commercial real estate, was cut back.

In contrast, the dynamic economic development in 2010 – compared with the EU average – had a positive impact on asset quality. The NPL ratio based on customer loans decreased in the fourth quarter; although it increased by half a percentage point to 8.0% year-on-year with diverging developments being seen in the individual customer segments. While defaults on corporate loans increased from 8.4% to 11.5%, defaults on retail loans dropped from 7.0% to 6.8%. As in many countries of Central and Eastern Europe, asset quality in the SME subsegment worsened in 2010. Another sign of the gradual improvement in the economic situation of borrowers was the migration to better risk classes within the various categories of performing loans. Non-performing loan coverage by risk provisions amounted to 81.9% at year-end.

HUNGARY

Business profile. The Hungary segment comprises the retail and SME business of Erste Bank Hungary and its subsidiaries. Erste Bank Hungary is a considerable player in the Hungarian banking market: it operates a network of 184 branches, more than 400 ATMs, 27 commercial centres for SME customers and uses nearly 350 post offices as an additional, variable cost sales channel. In addition, Erste Bank Hungary serves 900,000 clients and has market shares between 7-14%, depending on the product category. It also has significant market positions in the brokerage business and in leasing.

Economic review

After the deep recession of 2009, Hungary’s economy slowly returned to growth in 2010. As one of the most open economies in the CEE region, Hungary benefited materially from the economic recovery in Western Europe, especially in Germany. The rebound of Hungary’s economy in 2010 was clearly driven by exports, as demand for country’s main export items - cars and electronic equipment - increased significantly. In contrast, import volumes lagged behind those of exports which translated into a considerable trade surplus. Household consumption remained sluggish throughout the year, falling by 2% due mainly to a higher unemployment rate and very slow loan growth. Overall, Hungary’s real GDP grew by 1.2%, a growth rate near pre-crisis levels, while GDP per capita advanced to EUR 9,900. Unemployment, which started to increase in 2008, deteriorated to 11.1% during the course of the year. In addition, the labour market participation rate in Hungary was among the lowest in Europe at 55.5%.

One of the most important events impacting Hungary’s economic development in 2010 was the general election in April. After eight years of socialist-led governments, the conservative party Fidesz won a landslide victory in April 2010. The new government announced that it would comply with the 3.8% budget deficit target for 2010 agreed with the International Monetary Fund. However, unlike former austerity packages, the government’s programme was focused on increasing revenues by introducing punitive taxes on corporate sectors such as financial services, retail, energy and telecommunications. In addition, the government introduced spending cuts in the public sector and suspended transfers to private pension funds. As part of its longer-term economic plan, the government also cut corporate as well as personal income taxes.

Consumer price inflation was impacted by global energy prices, but remained under control throughout the year, averaging 4.9% in 2010. The Hungarian forint was volatile in the first half of the year and hit new trading lows versus the euro and Swiss franc in July driven by macroeconomic and political uncertainties. In the second half of the year, the forint recovered and traded in a much tighter range against both currencies. The central bank cut the benchmark interest rate four times in the first four months of the year to an all-time low of 5.25%, while two 25 basis points rate hikes came in November and in December resulting in a base rate of 5.75% by year end.

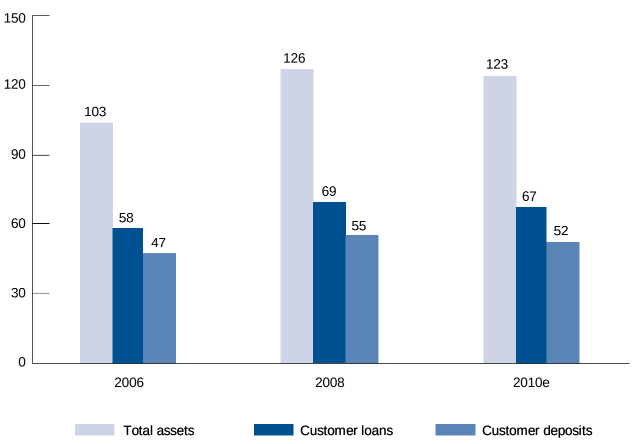
Key economic indicators – Hungary	2007	2008	2009	2010e
Population (ave, million)	10.1	10.0	10.0	10.0
GDP (nominal, EUR billion)	101.1	105.6	92.9	99.2
GDP/capita (in EUR thousand)	10.0	10.5	9.3	9.9
Real GDP growth	0.8	0.8	-6.7	1.2
Private consumption growth	-1.6	-0.6	-6.7	-2.0
Exports (share of GDP)	68.3	69.5	63.6	72.2
Imports (share of GDP)	68.4	69.7	59.6	66.6
Unemployment (Eurostat definition)	7.4	7.8	10.0	11.1
Consumer price inflation (ave)	8.0	6.1	4.2	4.9
Short term interest rate (3 months eop)	7.5	10.0	6.2	5.9
EUR FX rate (ave)	251.3	251.3	280.6	275.4
EUR FX rate (eop)	253.4	264.8	270.8	278.8
Current account balance (share of GDP)	-6.9	-7.4	-0.5	1.9
General government balance (share of GDP)	-5.0	-3.8	-4.4	-3.8

Source: Erste Group.

Market review

For Hungary's banking market 2010 was a difficult year. One of the most important changes was the sharp shift from Swiss franc-based lending to Hungarian forint-based loans. This shift became evident ahead of the ban on entering foreign currency-based mortgages into the land register in July. This regulatory change and clients' limited willingness to take out local currency loans led to a significant slowdown in lending. As a result, customer loans grew only by 4.3% in nominal terms in 2010; adjusted for the appreciation of the Swiss franc, customer loans actually declined. The deposit market was also influenced by macroeconomic conditions and hence remained flat in 2010.

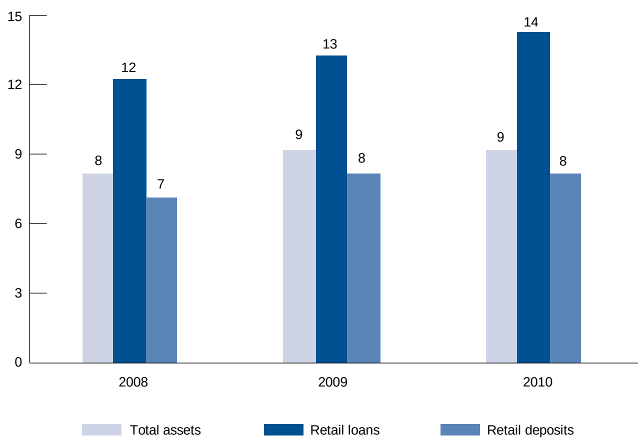
Financial intermediation – Hungary (in % of GDP)



Source: National Bank of Hungary, Erste Group.

The sector's profitability was also significantly impacted by another regulatory change. The newly elected Hungarian government introduced a banking tax totalling EUR 770 million in 2010 to comply with the budget deficit targets agreed with the International Monetary Fund. According to the law, this additional banking tax amounted to 0.53% of the banks' adjusted total balance sheet in 2010. As a result of limited growth and this additional expense, more than half of the banks became unprofitable in 2010.

Market shares – Hungary (in %)



Source: National Bank of Hungary, Erste Group.

In this difficult market environment Erste Bank Hungary was able to increase its lending market share, but lost marginal deposit market share. In the retail loan segment the bank's market share increased further to 14% while in the corporate segment it remained stable at 9%. This development was all the more satisfactory as margins improved at the same time. Deposit market shares declined slightly to the range of 7-8% depending on customer segment.

Business review

Strategy. The main strategic goal of Erste Bank Hungary is to be one of the most efficient banks in the market. At the same time the bank aims to further strengthen its deposit funding base in order to improve its loan-to-deposit ratio. In addition, Erste Bank Hungary aims to grow market shares in the key retail and SME segment in a sustainable manner.

Highlights in 2010

Resilient operating performance. In the face of a slow economic recovery and a changing regulatory environment Erste Bank Hungary's operating performance was very good in 2010. Since the new government took office in spring it has passed many regulations that have had a direct impact on the banking market, including a tax on banks, a set of prudent lending criteria and an effective ban on FX lending. In this environment demand for loans remained low, asset quality suffered and the bottom line turned negative. In response, Erste Bank Hungary put a special effort into increasing its operating efficiency: it maintained the net interest margin, it ran customer activation and acquisition programmes with a view to increase fee income and it kept operating expenses under control, by closing down loss-making branches.

Local currency lending moves to the forefront. As a direct result of the effective banning of FX lending as of July 2010, the Hungarian forint took over as the sole lending currency for retail clients. This led to an immediate year-on-year decline in new retail loan volumes, which since then have stabilised, supported by the decline in local interest rates. On the corporate end, loan volumes stagnated, as investment appetite remained weak and customers often deferred investments. Accordingly, Erste Bank Hungary focused on supporting the existing client base by optimising their funding mix. The bank also dedicated significant resources to client monitoring in order to detect customers with payment difficulties and address any issues at an early stage.

Brokerage business maintains top position. Erste Investment Hungary, the brokerage subsidiary of Erste Bank Hungary, retained its leading position in the Hungarian market: in terms of cash volumes traded on the Hungarian stock exchange, the company reached a 22% market share in 2010. The number of retail customers using electronic sales channels also increased in 2010. Special efforts were made to introduce new investment products to retail customers, while in the private banking segment the focus remained on increasing the customer base through marketing investment certificates. These efforts offset the growing competition and narrowing margins.

Financial review

in EUR million	2010	2009
Pre-tax profit	-7.1	83.5
Net profit after minority interests	-21.8	57.9
Operating result	305.5	255.7
Cost/income ratio	39.9%	45.6%
Return on equity	n.a.	14.7%
Customer loans	7,763	7,301
Customer deposits	3,887	3,931

Net interest income of the Hungarian retail and SME business improved – partly due to currency developments – from EUR 353.6 million in 2009 to EUR 387.1 million (+9.5% or currency-adjusted: +7.4%). The rise in net commission income and lower operating expenses were key contributors to the solid operating result of EUR 305.5 million (+EUR 49.8 million or +19.5% (currency-adjusted: +17.3) over the previous year's figure of EUR 255.7 million). Net commission income developed positively in all categories, rising from EUR 86.2 million by EUR 11.6 million to EUR 97.8 million (+13.6% or currency-adjusted: +11.4%) in 2010. Operating expenses improved in 2010, from EUR 214.0 million by EUR 11.4 million (-5.3%, currency-adjusted: -7.1%) to EUR 202.6 million, as a result of cuts in personnel, marketing and consulting expenses. The cost/income ratio equalled 39.9% in 2010 (2009: 45.6%).

The increase in risk provisions by 43.0% (currency-adjusted: +40.4%), from EUR 170.8 million to EUR 244.3 million in 2010, reflected the economic contraction and exchange rate volatility. The item other result deteriorated in 2010 by EUR 67.0 million, from EUR -1.3 million to EUR -68.3 million, almost exclusively due to the introduction of the banking tax (EUR -49.8 million). As a consequence, net profit after minorities decreased from EUR 57.9 million in 2009 to EUR -21.8 million.

Credit risk

Total exposure of the Hungary segment declined by 11.4% to EUR 8.1 billion in 2010, while loans to customers grew by 6.3% to EUR 7.8 billion; its share in total customer loans of Erste Group was 5.8% at year-end 2010. The distribution between retail and corporate loans shifted in favour of household loans. The currency-adjusted negative growth in credit volume was a result of the − despite a positive trend − still harsh macroeconomic situation in Hungary as well as the more restrictive lending policy. The near 20% appreciation of the Swiss franc versus the euro and the forint was the sole cause of the expansion of the loan portfolio in 2010 despite the discontinuation of Swiss franc lending in 2009.

Nevertheless, the share of foreign currency loans was still 76.7% at year-end 2010. Lending criteria were adjusted to the changed economic conditions by giving the cash flows of companies and the income situation of households a higher weighting.

Asset quality continued to deteriorate, but the growth rate of non-performing loans decreased in the second half of 2010. 80.1% of customer loans were classified in the best two risk categories at year-end (year-end 2009: 86.3%), while non-performing loans amounted to 12.0% of the total portfolio (year-end 2009: 7.6%). Defaulted consumer and housing loans increased at a faster pace than non-performing corporate loans. NPL coverage improved in 2010 from 46.2% to 50.0%; this level is considered adequate in the light of the high share of mortgage loans and the conservative valuation of real estate.

CROATIA

Business profile. The Croatia segment comprises the retail & SME business of Erste & Steiermärkische Bank (ESB), commonly referred to as Erste Bank Croatia, and Erste Bank Montenegro. It services some 851,000 clients via a network of 141 branches and well developed alternative channels, such as the internet and mobile communications as well as ATMs. Erste Bank Croatia is one of the major banking institutions in Croatia with double-digit market shares in all key product categories. In addition to banking services, Erste Bank Croatia also occupies strong market positions in a wide range of financial services, such as fund management, pension funds, brokerage and leasing.

Economic review

The Croatian economy remained fragile in 2010. As one of the least open CEE economies as measured by goods exports, Croatia failed to benefit materially from the economic rebound in Western Europe. In addition, domestic demand continued to be weak, with private consumption declining by 0.9% in 2010. The development of household consumption was also impacted by poor labour market conditions with the unemployment rate increasing to 11.9%. These negative trends were only partly offset by the favourable tourist season which is an important source of income and has been a major pillar of the country's economy. Importantly, Croatia was again among the top 20 most-visited countries in the world in 2010. All in all, the Croatian economy shrank further in 2010 with real GDP declining by 1.4% in 2010 and GDP per capita amounting to EUR 10,400.

As a reaction to the economic downturn, the government adopted a mid-term economic programme, which featured structural reforms in the public sector, most notably changes to the judiciary, healthcare and pension systems. In the short-term, however, the budget deficit widened to 5.5% of GDP in 2010 as revenues were not increased sufficiently – the government only hiked excise duties on cigarettes and gasoline – nor expenditure cut significantly. Nevertheless, EU accession by 2012-13 and the subsequent swift adoption of the euro in light of the already widespread use of the common currency remained key targets for Croatia. As a result of weak domestic demand, average consumer prices increased by only 1.2% in 2010 with price pressure being mostly related to energy and administrative prices. In order to manage inflation, the central bank continued with its policy of keeping its currency within a narrow range versus the euro.

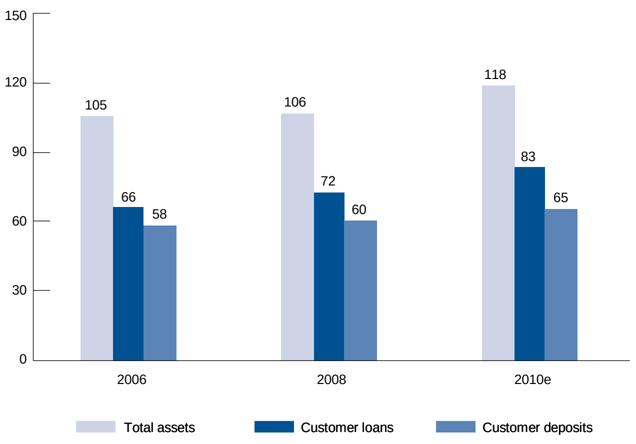
Key economic indicators – Croatia	2007	2008	2009	2010e
Population (ave, million)	4.4	4.4	4.4	4.4
GDP (nominal, EUR billion)	42.8	47.4	45.4	45.6
GDP/capita (in EUR thousand)	9.7	10.8	10.3	10.4
Real GDP growth	5.5	2.4	-5.8	-1.4
Private consumption growth	6.2	0.8	-8.5	-0.9
Exports (share of GDP)	21.5	20.7	17.0	19.5
Imports (share of GDP)	43.5	43.5	33.3	33.0
Unemployment (Eurostat definition)	9.6	8.4	9.1	11.9
Consumer price inflation (ave)	2.9	6.1	2.4	1.2
Short term interest rate (3 months eop)	6.9	8.2	3.8	2.5
EUR FX rate (ave)	7.3	7.2	7.3	7.3
EUR FX rate (eop)	7.3	7.3	7.3	7.4
Current account balance (share of GDP)	-7.6	-9.2	-5.5	-2.6
General government balance (share of GDP)	-2.0	-1.8	-4.3	-5.5

Source: Erste Group.

Market review

In 2010, the Croatian banking market remained among the most developed in the CEE region based on financial intermediation figures. Foreign parent banks have maintained their exposure to the country and hence contributed to the continued stability of the banking system. Credit activity, however, was negatively influenced by general macroeconomic weakness, prompting the Croatian National Bank to amend the law which limited loan growth. Overall, customer loans grew by 8.2% in 2010. The deposit market was supported by the strong tourist season, with euro-based deposits remaining an important savings product. Overall, customer deposits grew by 4.8% in 2010 while the banking system's loan-to-deposit ratio stood at 127% at the end of the year.

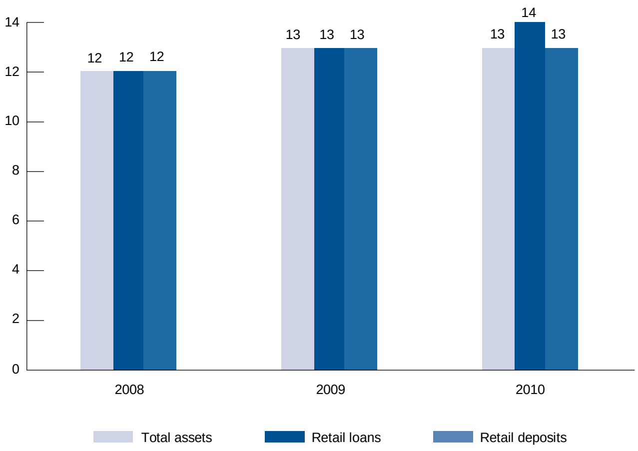
Financial intermediation – Croatia (in % of GDP)



Source: National Bank of Croatia, Erste Group.

Erste Bank Croatia remained among the top three players in the market. Loan and deposit growth of Erste Bank Croatia performed broadly in line with the market, with customer loans showing an increase while customer deposits remained flat. Customer loan and deposit market shares stood at 13% at the end of 2010. The bank's loan-to-deposit ratio was 123% at year end 2010 compared to 112% in 2009.

Market shares – Croatia (in %)



Source: National Bank of Croatia, Erste Group.

Business review

Strategy. Erste Bank Croatia's main objective is to further enhance its market positions in the medium and long term. In doing so, the bank will continue to focus on mass market and affluent retail customers and SME clients that have a favourable risk profile. It aims to provide simple and transparent products through its state-of-the-art branch network and alternative distribution channels. The continued improvement in service quality and a personalised approach to customers also represent a core part of the bank's strategy.

Highlights in 2010

Payroll account becomes anchor retail product. In 2010, Erste Bank Croatia continued to focus on low risk business growth. To this effect the bank promoted its payroll account as an anchor product for building long-term customer relationships and cross-selling activities. In addition, the bank promoted a number of products, such as housing loans for non-resident clients, an instalment payment facility on debit cards, pre-approved cash loans and revolving cash loans. The bank also paid special attention to improve existing products such as the payroll current account. Erste Bank Croatia also focused on working with clients who faced payments difficulties in order to mitigate any negative effects arising from the economic recession.

Stagnant corporate business. The lack of volume growth in the corporate segment was exclusively due to the fact that SMEs, which have been hit hardest by the economic downturn, make up two thirds of the corporate portfolio. In contrast, the large corporate business continued to do well, even though loans were mostly short-term and working capital-related. As in retail, the business development focus was also on retaining existing and attracting new customers. To this end the bank offered giro account facilities with a view to attract sight deposits, hence widening its deposit base.

New information technology platform. As a significant part of Erste Bank Croatia's information technology strategy, the bank introduced a new information technology platform with the aim to improve IT support and ensure faster and more stable process performance. This step will also enhance system maintenance, development and flexibility and make future capacity upgrades less costly.

Migration of credit card business. In 2010 Erste Bank Croatia fully completed the migration of its credit card business to Erste Card Club, a member of Erste Group responsible for managing the Diners Club, Master Card and VISA brands in the region. The main goal has been to develop a large scale credit card centre that offers competitive services in order to tie customers to the bank and attract new clients. In total 70,000 credit cards were migrated from Erste Bank Croatia to Erste Card Club.

Financial review

in EUR million	2010	2009
Pre-tax profit	81.8	100.3
Net profit after minority interests	36.7	51.3
Operating result	192.6	176.2
Cost/income ratio	41.9%	42.6%
Return on equity	16.2%	26.4%
Customer loans	5,487	4,684
Customer deposits	4,087	4,076

Net interest income in the Croatian retail and SME business rose from EUR 223.4 million in the previous year to EUR 247.9 million (+10.9% or currency-adjusted: +10.1%). The increase was due to Erste Bank Podgorica's (Montenegro) inclusion in the consolidated financial statements from March 2009. Net commission income remained stable at EUR 74.0 million (-0.5% or currency-adjusted: -1.2%). The EUR 0.7 million increase in the net trading result from EUR 9.0 million to EUR 9.7 million in 2010 was due mainly to positive contributions from Erste Card Club.

Operating expenses rose by EUR 8.4 million or 6.5% (currency-adjusted: +5.7%), from EUR 130.6 million to EUR 139.0 million. This was largely attributable to the introduction of a value added tax on entities classified as other financial services providers such as credit card companies. The operating result rose by 9.3% (currency-adjusted: +8.5%), from EUR 176.2 million to EUR 192.6 million in 2010. As a result, the cost/income ratio improved from 42.6% in 2009 to 41.9%. The EUR 31.5 million increase in risk provisions, from EUR 74.5 million to EUR 106.0 million, was due to the generally higher provisioning requirements in the corporate and real estate business. Net profit after minorities decreased by EUR 14.6 million, from EUR 51.3 million in the previous year to EUR 36.7 million (-28.4% or currency-adjusted: -28.9%). Return on equity was 16.2% (2009: 26.4%).

Credit risk

In the Croatia segment, total exposure rose from EUR 7.0 billion by 11.8% to EUR 7.8 billion in 2010. Customer loans increased by 17.2% and reached EUR 5.5 billion at year-end 2010. The steepest underlying growth was recorded in corporate loans. The expansion was mainly attributable to the inclusion of Erste Factoring d.o.o. and Erste Card Club d.d. into the Croatia segment. Loans at Erste Bank Croatia rose only slightly. The Croatia segment accounted for 4.1% of Erste Group's total customer loans, up from 3.6% a year ago.

Due to the overall economic situation – Croatia's economy was still in recession in 2010 – and increasing liquidity issues for borrowers, lending criteria were tightened. Apart from the real estate industry, this concerned mainly retail customers with lower credit ratings as well as employees in riskier sectors such as the construction industry. Most loans in Croatia were granted in foreign currency. At year-end 2010, the share of foreign currency loans was 78.8%.

The quality of customer loans deteriorated noticeably in 2010: non-performing loans rose from EUR 289 million to EUR 557 million or from 6.2% to 10.2% of the total portfolio. Within the performing loan categories, only minor shifts to worse risk categories were recorded. Migration was a distinct feature among corporate loans, while retail default rates increased only moderately. The negative trend in defaults led to a significant increase in risk provisions from EUR 228 million to EUR 332 million. Considering the existing level of collateral, NPL coverage was adequate.

SERBIA

Business profile. The Serbia segment comprises the retail and SME business of Erste Bank Serbia (EBS), which services some 257,000 clients through a network of 73 branches as well as 11 commercial centres for corporate clients. Catering to the needs of a broad retail and mid-market corporate client base, the bank is well represented in the all major business centres in Serbia. The bank's current market share is some 3% in key product segments; however, its position is considerably stronger in alternative distribution channels, with a 9% market share in electronic payments in Serbia.

Economic review

The Serbian economy resumed growth in 2010 following the recession in 2009. The economic rebound was driven mainly by industrial production and was also supported by transportation, communication and financial services. Serbia's exports, supported by stronger external demand and the weaker currency, grew by 36% in 2010. Economic growth in the second half of 2010 was more balanced with a pronounced recovery in private consumption. However, domestic demand for the full year remained in negative territory due to the weak labour market. Serbia's unemployment rate increased further to 19.2% in 2010, one of the highest levels in the CEE region. Overall, real GDP grew by 1.6% in 2010, while GDP per capita amounted to EUR 4,000 at the end of the year.

Serbia's current account deficit, 40% of which was covered by foreign direct investments, widened in 2010. On the fiscal front Serbia adhered to the budget deficit target of 4.8% as agreed with the IMF. Under pressure from Serbian trade unions and public protests, the government successfully negotiated with the IMF to end the pay and pension freeze ahead of schedule. Nevertheless, the Serbian government continued to emphasise its very strong commitment to the IMF programme, which also included a cap on public debt of 45% of GDP.

Inflation was benign in the first half of 2010 but accelerated later in the year on the back of higher food prices and a weaker Serbian dinar. The currency weakened significantly against the euro in 2010, breaching the psychologically important level of 100. Still, frozen wages and pensions put a limit on the increase in prices. Nevertheless, average consumer prices increased by 6.1% in 2010, prompting the Serbian national bank to hike the benchmark interest rate by 200 basis points to 11.5%.

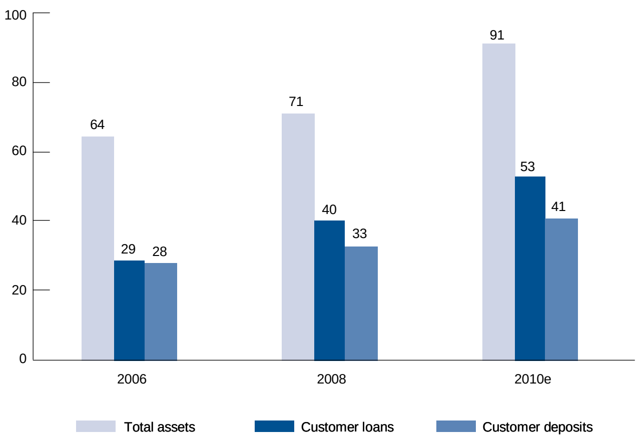
Key economic indicators – Serbia	2007	2008	2009	2010e
Population (ave, million)	7.4	7.4	7.4	7.4
GDP (nominal, EUR billion)	29.1	33.4	30.0	29.4
GDP/capita (in EUR thousand)	3.9	4.5	4.0	4.0
Real GDP growth	6.9	5.5	-3.1	1.6
Private consumption growth	na	na	na	na
Exports (share of GDP)	21.9	22.2	20.0	25.1
Imports (share of GDP)	44.7	44.8	37.0	41.4
Unemployment (Eurostat definition)	18.1	13.7	16.1	19.2
Consumer price inflation (ave)	6.5	11.7	8.4	6.1
Short term interest rate (3 months eop)	10.3	18.9	10.8	13.5
EUR FX rate (ave)	80.0	81.4	94.0	103.1
EUR FX rate (eop)	79.2	88.6	95.9	105.5
Current account balance (share of GDP)	-15.8	-18.2	-6.9	-7.0
General government balance (share of GDP)	-1.9	-2.5	-4.0	-4.8

Source: Erste Group.

Market review

In 2010, the Serbian government continued to support the country's banking market by providing subsidised local currency consumer, cash and housing loans. In addition, the regulator decided to lower the mandatory cash reserve on foreign exchange loans to 25% from 30% and to increase the maximum debt service ratio from 30% to 40% for unsecured loans and from 50% to 60% for mortgage loans. Partly due to these measures and as a result of the weaker currency, consumer loans rose by 27% in 2010. Customer deposits increased at a more moderate 14% while the banking system's loan to deposit ratio stood at 127% at the end of 2010.

Financial intermediation – Serbia (in % of GDP)



Source: National Bank of Serbia, Erste Group.

Erste Bank Serbia remained among the top fifteen banks based on total assets in 2010. At 3.3% the highest market share was achieved in retail loans while the retail deposit market share equalled 2.4% at the end of 2010. At about 2%, the corporate loan and deposit market shares were lower than in the retail business.

Business review

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

Highlights in 2010

Balanced business model. Erste Bank Serbia has one of the most balanced business models in the country with a loan to deposit ratio of 95%. In 2010, the bank was particularly successful in attracting new retail euro deposits. This development once again underscored that Erste Bank Serbia is one of the most trusted banks in the market. The growth in customer deposits provided a solid basis for loan growth: on an underlying basis, retail and corporate loans advanced significantly in 2010. At the same time the bank's net interest margins remained unchanged.

Focus on client base and brand awareness. In 2010, Erste Bank Serbia continued to focus on growing its customer base. It ran several marketing campaigns and launched special product packages. These efforts yielded positive results as Erste Bank Serbia increased its client base by almost 10% in 2010. These marketing campaigns were coupled with growing levels of customer satisfaction and increased brand awareness. In fact, Erste Bank Serbia became the second most recognised brand in the market in 2010.

Financial review

in EUR million	2010	2009
Pre-tax profit	1.5	2.5
Net profit after minority interests	1.0	1.4
Operating result	10.4	11.0
Cost/income ratio	74.9%	74.0%
Return on equity	2.4%	2.8%
Customer loans	431	518
Customer deposits	455	373

Net interest income of the Serbian retail and SME business declined by 2.0%, from EUR 28.1 million in 2009 to EUR 27.5 million. However, currency-adjusted, net interest income rose by 7.3%. Net commission income improved by 5.9% (currency-adjusted: +16.0%), from EUR 10.9 million to EUR 11.5 million in 2010. Due to declining income from foreign exchange transactions, the net trading result decreased by EUR 0.7 million or 22.2% (currency-adjusted: -14.8%) to EUR 2.4 million. Operating expenses remained stable at EUR 31.0 million (2009: EUR 31.1 million); currency-adjusted, this corresponded to an increase of 9.3% while the inflation rate stood at 10.3%.at year-end. The cost/income ratio was 74.9% against 74.0% in 2009.

The operating result decreased by EUR 0.6 million year-on-year, from EUR 11.0 million to EUR 10.4 million. Risk costs increased from EUR 7.0 million by EUR 1.2 million to EUR 8.2 million due to the adverse market conditions. The item other result improved by EUR 0.7 million, from EUR -1.5 million in the previous year to EUR -0.8 million following the release of provisions no longer required. Net profit after minorities declined from EUR 1.4 million to EUR 1.0 million.

Credit risk

Total exposure in the Serbia segment decreased from EUR 747 million in the previous year to EUR 568 million. The customer loan volume declined by EUR 87 million to EUR 431 million. This decrease was caused by a change in segment allocation. With a share of 0.3% in total customer loans, the Serbia segment was still only of minor importance for Erste Group. By customer segment, the volume reduction was limited to corporate lending, while loans to households increased from EUR 139 million to EUR 166 million over the course of the year.

A major percentage of loans was still denominated in foreign currency; however, the share of local currency loans rose from 18.8% to 27.3% within one year. The lending criteria, especially for corporate loans, were tightened, with a focus on sustainability of collateral in stress scenarios.

There were diverging asset quality trends in 2010. On the one hand, the share of the best risk categories rose noticeably, while on the other the NPL ratio based on customer loans increased to 10.2% (2009: 8.0%). A deterioration was recorded mainly among corporate loans, while the trend in retail loans was marginally positive. NPL coverage excluding collateral continued to exceed 100% at the end of 2010.

UKRAINE

Business profile. The Ukraine segment includes the business of Erste Bank Ukraine. At the end of 2010 Erste Bank Ukraine serviced some 200,000 customers through a country-wide network of 133 branches. As the bank only launched its operations in 2007, its market shares in 2010 were still small at about 1% in most product categories; in terms of total assets, Erste Bank Ukraine ranked 24th. The bank offers a wide range of standard banking services, including deposits, current accounts, treasury services and loans to its fast growing retail and corporate customer base.

Economic review

The Ukrainian economy enjoyed a strong recovery in 2010. Unlike other economies in the CEE region, however, this significant rebound was driven by both domestic and external demand. Increased political stability and the prolongation of the IMF agreement led to improving consumer and business confidence, both of which underpinned the macroeconomic development. Exports increased less than imports as demand for steel, Ukraine's main trading item, was still subdued. Overall, real GDP in the Ukraine grew by 4.3% in 2010, thereby posting the fastest growth in Erste Group's CEE universe. Despite an increase, GDP per capita was still much lower than in other CEE countries, at EUR 2,200. The labour market also showed improvements with the unemployment rate dropping to 8.2% by the end of 2010. The country retained its traditional regional breakdown of employment, with the lowest unemployment rate recorded in the industrially more developed eastern part of the country.

The stabilisation of the Ukrainian economy was supported by the prolongation of the agreement with the International Monetary Fund in July 2010. The two and a half year stand-by arrangement was worth USD 15.2 billion or 11.1% of Ukraine's GDP. The new facility replaced the old one under which Ukraine drew down USD 11 billion. In order to qualify for the new programme, the government agreed to cut its budget deficit by raising natural gas prices and start financial, energy and fiscal reforms. These austerity measures targeted a reduction in the general government deficit to 4.5% of GDP in 2010; the actual deficit came in at 5.5%.

Inflation remained benign in the first half of the year; however, it started to increase later, mainly driven by higher food prices and the improving labour market. Real household income returned to pre-crisis levels on the back of a 10.2% increase in 2010, supporting higher private consumption. Inflation was also impacted by the government's agreement with the IMF to increase domestic energy prices by 50% in August. As a result, average consumer prices for 2010 increased by 9.4%. Accordingly, the national bank cut the benchmark interest rate in the first half of the year but left it unchanged in the second, with the base rate standing at 7.75% at the end of the year. As a result of the improved sentiment there was less demand for foreign currencies, which supported the Ukrainian hryvna's appreciation against the US dollar and the euro in 2010. These positive developments were rounded off by Ukraine's successful return to international bond markets, placing USD 4.7 billion in sovereign debt in 2010.

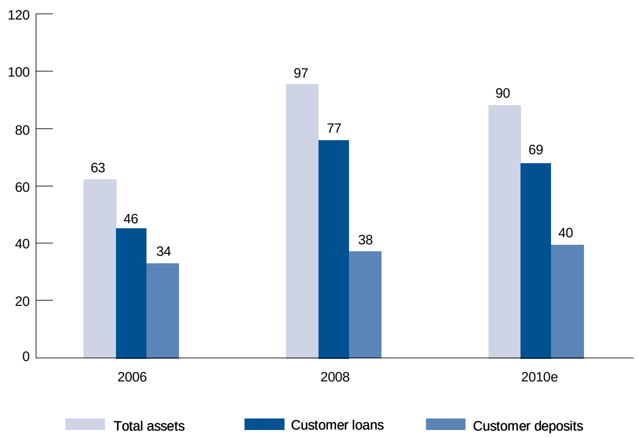
Key economic indicators – Ukraine	2007	2008	2009	2010e
Population (ave, million)	46.4	46.1	45.8	45.5
GDP (nominal, EUR billion)	103.0	123.8	80.7	99.9
GDP/capita (in EUR thousand)	2.2	2.7	1.8	2.2
Real GDP growth	7.6	2.1	-15.1	4.3
Private consumption growth	17.1	12.0	-14.2	4.0
Exports (share of GDP)	34.7	37.0	35.7	39.5
Imports (share of GDP)	42.8	47.3	40.4	46.0
Unemployment (Eurostat definition)	6.4	6.4	8.8	8.2
Consumer price inflation (ave)	12.8	25.2	16.2	9.4
Short term interest rate (3 months eop)	8.7	23.6	18.1	6.5
EUR FX rate (ave)	6.9	7.7	11.3	10.5
EUR FX rate (eop)	7.4	10.7	11.7	10.7
Current account balance (share of GDP)	-4.2	-6.7	-1.7	-1.9
General government balance (share of GDP)	-1.1	-1.2	-6.3	-5.5

Source: Erste Group.

Market review

Despite the economic recovery, the Ukrainian banking market remained in a state of hibernation in 2010. Banks only selectively engaged in new lending business and demand from clients was also limited. This was especially true for local currency-based retail loans whose interest rates were still twice as high as for dollar-based loans. Altogether, customer loans in the banking sector grew only by 1% in 2010 with a shift from US dollar-based to local currency loans. Contrary to the loan market, Ukraine's deposit market was very lively in 2010 as banks' focus turned to deposit taking activities. As a result, customer deposits grew by 29% in 2010. Despite the significant difference between loan and deposit growth rates, the banking system's loan-to-deposit ratio remained high compared to other CEE countries while the system's NPL ratio increased to around 30%. The structure of the banking market remained stable, featuring a high degree of fragmentation: the largest of the 180 banks in operation accounted for only 12% of total assets.

Financial intermediation – Ukraine (in % of GDP)



Erste Bank Ukraine' operations in 2010 reflected the overall banking environment with a pronounced focus on deposit collection and very limited and selective lending activities. Erste Bank Ukraine's retail deposit market share improved further, benefiting from its very strong brand name, new deposit products and successful marketing campaigns. Erste Bank Ukraine was among the biggest market share gainers on the deposit side while on the loan side, it maintained its market shares throughout the year. The bank's loan-to-deposit ratio also improved significantly but still remained well above 100%. Overall, Erste Bank Ukraine's total asset market share stood at 1% at the end of 2010.

Business review

Strategy. Erste Bank Ukraine's main objective is to rank among the best in terms of service quality. In addition, the bank focuses on strengthening its market position in SME and retail banking, while at the same time increasing operating efficiency. In line with the improving economic environment, the bank aims to enhance its product offer for both retail and corporate customers. In the retail segment this includes new card products, better product information and a resumption of lending activities. In the corporate segment the bank focuses on financing energy efficiency projects, the agriculture sector, food and beverage production, as well as engineering companies.

Highlights in 2010

Strong deposit growth, selective lending approach. In 2010 Erste Bank Ukraine successfully grew its client as well as its deposit base. Both increased by more than 50%, making the bank the fastest growing financial institution in the country. As the macroeconomic situation improved, Erste Bank Ukraine selectively resumed lending activities in 2010, first to SMEs and then in the retail segment. In doing so, the bank continued to adhere to strict lending criteria and focused on cash-flow rather than asset-based lending.

Maintaining stable liquidity and capital adequacy positions. Both, the liquidity and the capital adequacy positions of the bank, remained very solid in 2010. While the former significantly exceeded the regulatory minimum in 2010, the capital adequacy ratio strengthened further to 25.6% in 2010, compared to the National Bank minimum requirement of 10%. Reflecting this strong capital position, Erste Bank Ukraine was the only bank in the country whose credit and bond rating was confirmed by well respected local rating agency Credit-Rating at uaAA+ with a stable outlook. In addition, the rating agency maintained the highest available deposit reliability rating.

Financial review

in EUR million	2010	2009
Pre-tax profit	-37.3	-86.7
Net profit after minority interests	-37.5	-83.7
Operating result	1.6	-0.3
Cost/income ratio	n.a.	n.a.
Return on equity	n.a.	n.a.
Customer loans	486	509
Customer deposits	136	84

The operating result of the Ukrainian retail and SME business improved by EUR 1.9 million, from EUR -0.3 million to EUR 1.6 million in 2010. Lower lending volumes were more than offset by higher securities-related interest income, resulting in an increase in net interest income from EUR 27.1 million to EUR 32.9 million (+EUR 5.8 million or +21.5%, currency-adjusted: +14.3%). Higher income from foreign exchange transactions improved net commission income by EUR 2.8 million to EUR 4.1 million. The net trading result rose by EUR 4.2 million, from EUR 7.5 million to EUR 11.7 million. This corresponded to a currency-adjusted increase of 47.5%, which was achieved primarily in the securities business.

Operating expenses rose by EUR 11.0 million or 30.5% (currency-adjusted: +22.7%), from EUR 36.1 million to EUR 47.1 million. Risk provisions halved compared to the previous year (EUR 38.8 million in 2010 after EUR 76.7 million in 2009, currency-adjusted: -52.4%). This significant decline was caused by the general portfolio stabilisation in 2010 after considerable write-downs in 2009. Net profit after minorities improved by EUR 46.2 million, from EUR -83.7 million in 2009 to EUR -37.5 million.

Credit risk

Total exposure in the Ukraine segment rose by 15.1% from EUR 630 million at the end of 2009 to EUR 725 million. This increase was predominantly attributable to the appreciation of the Ukrainian hryvnia and the US dollar, which is the primary trade currency. In contrast to total exposure, customer loans decreased from EUR 509 million to EUR 486 million. While corporate loans declined, retail loans in local currency remained at the level of 2009. The share in total customer loans of Erste Group was less than 0.4% at the end of 2009.

Economic conditions remained difficult despite the return to growth. Consequently, new lending was again insignificant in 2010. Efforts concentrated on credit restructuring in cooperation with the customers. The aim was to adjust debt service terms to the changed economic environment and thereby, ensure full repayment of the loans over the medium to long term.

Credit quality continued to develop negatively in the first months of 2010 before bottoming out in the second quarter. Subsequently, the NPL ratio based on customer loans ranged between 27% and 29%. The recent increase in loans in the two best risk categories was a positive sign: these loans rose from 51.2% to 56.0% of the total portfolio in the last quarter. Due to the significant increase in risk provisions over the course of the year, which exceeded non-performing loans by EUR 10 million at year-end, coverage for credit losses was adequate.

Group Corporate and Investment Banking (GCIB)

Business profile. The Group Corporate and Investment Banking (GCIB) segment includes Erste Group's fully divisionalised large corporate (Group Large Corporates), investment banking (Group Investment Banking), real estate (Group Real Estate) and international (International Business) business lines. They provide the full range of banking services to cross-national large corporate clients, institutional and public sector clients. The division employs 1,250 professionals who combine industry and product expertise with local knowledge and offer services in debt financing, equity capital markets, mergers and acquisitions, debt advisory, acquisition finance, infrastructure finance, project finance, syndication, real estate development, lending & leasing, and cash management. The division cooperates closely with capital markets, retail and SME business lines.

Business review

Strategy. Building on its strong presence in retail and SME banking, Erste Group aims to also increase its footprint in the markets for corporate & investment banking in the CEE region. The aim is to capture market opportunities which result from the redistribution of market shares and still attractive pricing levels for new business. Consequently, the GCIB division has continued to pursue a selective growth strategy which reflects the differing market conditions in each of its business lines.

Group Large Corporates has pursued growth opportunities. A special effort has been to deepen relations with core clients combining an industry sector coverage approach and a widened product offering. In light of challenging but improving market conditions Group Real Estate has focused on the existing portfolio. In order to offer a "one-stop-shop" covering the full real estate value chain for commercial, residential and municipal projects, Erste Group Immorent (EGI) has been set-up as an integrated management structure across these real estate business segments. In the International Business maturing assets have been replaced on a selective basis only – overall this led to slightly reduced total volumes in GCIB out of which nevertheless increased operating income was generated.

Highlights in 2010

Focus on existing real estate portfolio. The Group Real Estate unit had to cope with another challenging year in 2010 although the positive effects of the economic recovery were increasingly visible across the CEE region. While transaction activity was still subdued it improved compared to 2009. Prices for commercial property stabilised or appreciated slightly. The following major projects (shopping centres) were completed and successfully opened in 2010: Arena Centar (60.000 sqm) in Zagreb, Sun Plaza (82.000 sqm) in Bucharest, and Supernova (38.000 sqm) in Zadar. The continued commitment to clients and the region was recognised: BCR received the Europa Property SEE award as "Bank of the Year 2009" for its activity in the real estate market.

Despite the slight improvement in the operating environment, the main focus remained on managing the existing portfolio and on supporting weaker clients and projects. Due to the cautious and selective market approach the portfolio did not change significantly, the overall exposure decreased slightly to about EUR 17 billion, including the building society business (commercial & subsidised housing) but excluding any activities of the savings banks. The portfolio remained well diversified: the most stable economies of Erste Group's region (Austria, Czech Republic, and Slovakia) accounted for almost 70% of the portfolio and more than 80% of the total volume was related to projects in capitals or in major cities. Residential properties accounted for 37% of the portfolio (about two thirds thereof were subsidised by Austrian public institutions and therefore low-risk), offices accounted for 15%, retail for another 15% and hotel/tourism for 11%. Land plot financing remained insignificant. Overall, some developments were started as demand showed moderate growth. Erste Group is still convinced that the significant need for renewal of the real estate stock in big parts of its core market will strongly support a positive market development in the future.

IMMORENT maintains profitability. IMMORENT, Erste Group's real estate leasing subsidiary and one of the leading leasing companies in Austria and in CEE, continued to focus on managing risk and revenues and on the selective acquisition of new business. Despite a marginal reduction in the overall portfolio volume, the economic stabilisation and well established client relationships resulted in slightly increased new real estate leasing business volume in Austria. A noticeable highlight in equipment leasing was the financing of photovoltaic energy production in the Czech Republic.

The project development business segment of IMMORENT focused on several large projects in Erste Group's core markets in 2010. Erste Campus, Erste Group's future headquarters, was approved by the supervisory board of ERSTE Group. The administrative complex of "Futurama Business Park" in the Czech Republic reached an occupancy rate of 88% and phase 2 was approved. The last phase of Business Park Avenir in Prague was sold with a profit of EUR 3.5 million. In Serbia the land for realisation of an office building was purchased. In Hungary and Bulgaria IMMORENT started with the construction of projects.

Group Large Corporates enjoys increased business activity. The Group Large Corporates (GLC) business line fine-tuned its sector based approach by further integrating the locally based client executives across the region. The aim of the revised structure is to improve the service to the clients and thus to ensure balanced portfolio growth across countries and sectors while generating stable revenues from intensified client relations. While asset volumes remained stable in 2010, operating income increased and risk provisions decreased.

Combined efforts of GLC client executives and product experts in the Group Markets business line resulted in Erste Group taking lead roles in several new bond issues for leading companies in CEE, including ČEZ, a.s., Wienerberger AG, Novomatic AG or Allgemeine Baugesellschaft - A. Porr AG. In addition, GLC actively participated in "ULSG" ("Unternehmensliquiditätsstärkungsgesetz") transactions within the framework of an initiative of the Republic of Austria to strengthen corporate liquidity, thus underscoring the deepened relations with core clients.

Group Investment Banking benefits from increased demand. The Group Investment Banking business line is specialised on corporate finance transactions and investment business for private equity funds in CEE. Within this business line the Equity Capital Markets ("ECM") team advises and executes initial and secondary public offerings, private placements and accelerated book-builds, and advises on share buy-backs and delistings. The Leveraged Finance department ("CAF") is focussed on providing acquisition finance for leveraged buy-outs of private equity funds in CEE as well as financing solutions for leveraged corporates. In addition, the team advises on debt restructurings of Erste Group corporate clients.

The Mergers & Acquisitions ("M&A") group provides buy- or sell-side advisory to corporate or institutional clients who seek to buy or sell companies in CEE. Services include valuations, bidding strategies and process execution. All product groups maintain staff in the execution hubs Prague and Vienna and additional staff across Erste Group's core markets and Poland.

The general corporate finance market in CEE has enjoyed a revival during 2010, although valuation levels and transaction numbers in terms of volume and deal count have not yet reached pre-crisis levels. Group Investment Banking has been able to participate in the ongoing recovery through close co-operation with GLC in core industries and the implementation of a private equity coverage concept designed to originate business with target sponsors in all product groups. As a result, fee income generated from corporate finance mandates has increased substantially compared to previous years and contributed to a solid increase in the division's income.

Transaction highlights included two lead mandates for initial public offerings in Warsaw (joint lead mandate for Kulczyk Oil Ventures, an oil exploration company and a sole lead mandate for Berling S.A., a white goods wholesaler) plus several co-lead mandates including the capital increase and listing in Istanbul of Do&Co Restaurants and Catering AG. In addition, listing services were provided to Immofinanz in its merger with Immoeast, to Amrest in its capital increase (sponsored by Warburg Pincus) and to Sibex, the derivatives exchange in Sibiu. Other transactions included LBO financings for Innova (in the buy-out of Marmite in Poland), for TA Associates (in the buy-out of Armann Girrbach in Austria) and of corporate refinancings for Agrokor, the leading Croatian food & beverage and retail conglomerate. Furthermore, the unit performed advisory services for a global building materials group in agreeing a joint venture with a regional construction company and sell-side advisory services for a global private equity group selling a food production company in Serbia.

Diversification remains key to the International Business.
Erste Group's 'International Business' unit covers all lending and investing activities outside the group's core markets and is responsible for business development with and credit line management for banks and non-bank financial institutions. The business objective is to provide risk return diversification to complement Erste Group's performance. The business follows a regional and product split and covers the world out of the branches in New York, London and Hong Kong as well as the Viennese headquarters.

The business line continued to contribute to global portfolio diversification as well as improving to the overall credit rating composition of Erste Group. The credit quality of the International Business portfolio was predominantly investment grade. The International Business line was once more a stable income producer - on the interest as well as on the fee side. The business line succeeded in keeping credit costs low, thus posting a strong profit. The strategy to consciously forgo marginal income by focusing exclusively on risk-reward when accepting to join lending transactions - especially in "boom" times - has proven right. It helped to minimize risk costs in "bust" years, and underlined the unit's position as stable profit contributor throughout the whole credit cycle.

Financial review

in EUR million	2010	2009
Pre-tax profit	337.3	218.4
Net profit after minority interests	247.6	166.4
Operating result	556.2	556.0
Cost/income ratio	24.8%	23.9%
Return on equity	12.2%	8.0%
Customer loans	18,745	19,458
Customer deposits	6,135	6,089

The slight increase in net interest income by EUR 3.7 million or 0.6%, from EUR 570.5 million in 2009 to EUR 574.2 million, resulted from the application of a stringent pricing policy. International business volumes decreased considerably, as planned. Net commission income remained almost unchanged at EUR 160.1 million in 2010 (2009: EUR 162.7 million, down by 1.6%), despite decreasing income from real estate leasing. General administrative expenses at EUR 183.9 million were up 5.6% from EUR 174.2 million in 2009.

The operating result remained stable at EUR 556.2 million. Risk provisions decreased by 30.4% from EUR 267.9 million to EUR 186.5 million; this improvement was mainly driven by the large corporate business. Net profit after minorities rose by 48.8%, from EUR 166.4 million to EUR 247.6 million in 2010. The EUR 37.3 million improvement in the item other result, from EUR -69.7 million in the previous year by to EUR -32.4 million, was mainly due to one-off revaluations in 2009. The cost/income ratio was 24.8% (2009: 23.9%), while return on equity equalled 12.2%.

Credit risk

Total exposure in the GCIB segment declined considerably in 2010 and amounted to EUR 37.8 billion at the end of December. Customer loans decreased by 3.7% from EUR 19.5 billion to EUR 18.7 billion; the GCIB loan portfolio accounted for 14.1% of Erste Group's total loan book. The subsegments Group Real Estate and Group Large Corporates (GLC) accounted for almost 84% of total lending to GCIB customers.

The quality of the portfolio was slightly worse at the end of 2010 than one year ago: non-performing loans increased by EUR 114 million to around EUR 1 billion, while the share of the best risk category decreased from 66.7% to 65.3%. A major portion of the increase in non-performing loans was attributable to the subsegment Group Real Estate, while the subsegment GLC remained relatively stable. NPL coverage increased considerably from 42.9% at year-end 2009 to 53.8% at year-end 2010.

78.4% of the GCIB portfolio was denominated in euro, while US dollar loans decreased. In view of the subdued – and in some markets still recessionary – economic development, the focus was not on new lending but on managing the existing portfolios and, where necessary, restructuring loans.

Group Markets (GM)

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

Business review

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

Highlights in 2010

Expansion into new markets. The changing banking landscape in Germany has opened up attractive business opportunities with financial institutions – savings banks, banks, insurance companies, pension funds. The focus is on fixed-income (bonds, debt securities and mortgage bonds, interest rate derivatives, etc.), but also supplemented by other asset classes such as foreign exchange, credit and alternative investments. Erste Group has traditionally done very good business in this customer and product segment and has a solid customer base in Central and Eastern Europe. The team will start its first full business year for Erste Group in 2011. Until then the German market will be covered out of Vienna; in addition, offices in Stuttgart and Berlin will be established.

The newly established investment bank Erste Securities Istanbul started business operations in April 2010. It focuses on equity transactions for institutional customers. The goal is to develop long-lasting customer relationships supported by Erste Group's decades of experience and credibility. The bank's strengths such as its leading market position in Central and Eastern Europe play a key role in addressing new customers.

Expansion of customer business. After 2009 in Hungary, certificates were also introduced in the Romanian market in 2010. The introduction of certificates in additional markets of the group is currently being evaluated.

This was supported by the group-wide roll-out of the web portal for retail (www.produkte.erstegroup.com) as well as institutional and corporate customers (www.capitalmarkets.erstegroup.com) of Erste Group that was initially launched in June 2009. The portal was expanded by a number of functions to offer customers the best possible services. *My Site* is the personalised information zone for registered users of the website. The portal offers the option of defining an individual starting page, watch lists and sample portfolios and has a subscription facility for newsletters and numerous research publications. It also features information on capital market products, markets and trends as well as research, know-how and CEE competence.

Trading highlights. Since October 2010, the new IT system for derivative FX products has been in use from front to back office. With the help of the new system, it was possible to increasingly structure tailor-made products in-house thus reducing operational risk. Over the next years, the system will be upgraded to cover additional asset classes. High demand for bonds from corporates, banks and sovereigns were the highlights in 2010. Backed by the close collaboration of relationship managers, origination, sales and trading, Erste Group further expanded its leading market position.

Financial review

in EUR million	2010	2009
Pre-tax profit	327.9	480.2
Net profit after minority interests	245.1	367.8
Operating result	326.2	484.0
Cost/income ratio	41.7%	31.5%
Return on equity	75.7%	106.9%
Customer loans	331	260
Customer deposits	2,536	2,087

The operating result decreased by 32.6%, from EUR 484.0 million in 2009 to EUR 326.2 million. This was mainly attributable to weaker results from conservative money market activities and interest rate trends. Significant events such as concerns about the creditworthiness of Greece and substantial HUF volatility had a negative impact on trading results. Net interest income decreased by EUR 36.8 million, or 19.0%, to EUR 156.4 million in 2010. The net trading result failed to reach the extraordinarily high level of EUR 407.0 million in 2009 and declined by 39.5% to EUR 246.3 million. The EUR 51.0 million increase in net commission income, from EUR 106.1 million or 48.1% to EUR 157.1 million, resulted from the positive development in asset management and from the steadily improving commission business in treasury sales.

Operating expenses amounted to EUR 233.7 million, up 5.1% on EUR 222.2 million in 2009. This was due mainly to the inclusion of additional asset management companies and IT projects. Accordingly, the cost/income ratio deteriorated from 31.5% to 41.7%. Net profit after minorities decreased by EUR 122.7 million or 33.4%, from EUR 367.8 million in 2009 to EUR 245.1 million. Return on equity was 75.7% against 106.9% in 2009.

Corporate Center (CC)

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

Financial review

in EUR million	2010	2009
Pre-tax profit	-204.7	-340.0
Net profit after minority interests	-141.4	-229.9
Operating result	-71.6	-274.6
Cost/income ratio	n.a.	n.a.
Return on equity	n.a.	n.a.

Net interest income increased as a result of positive contributions from asset/liability management and higher capital income (especially from participation capital issued in the first half-year 2009 and the proceeds of the capital increase in November 2009). The development of net commission income and general administrative expenses was driven mainly by the profit consolidation of banking support operations.

The other result comprised the required linear depreciation/amortisation of customer relationships of BCR, Erste Card Club and Ringturm KAG amounting to EUR 67.4 million and valuation adjustments for IT projects and other assets of EUR 42.3 million. In addition, this line item was impacted by goodwill impairments for some smaller participations in a total amount of EUR 30.6 million.