ERSTE GROUP

Annual Report 2011

2011

Extensive presence in Central and Eastern Europe

ČESKÁ SPOŘITELNA

CZECH REPUBLIC
Employees: 10,661
Branches: 654
Customers: 5.2 million

ERSTE BANK

AUSTRIA
Employees: 16,189
Branches: 297
Customers: 1.1 million

SPARKASSE

Branches: 753
Customers: 2.1 million

SLOVENSKÁ SPORITEĽŇA

SLOVAKIA
Employees: 4,157
Branches: 292
Customers: 2.4 million

ERSTE BANK Ukraine

UKRAINE
Employees: 1,685
Branches: 131
Customers: 0.2 million

ERSTE BANK Hungary

HUNGARY
Employees: 2,948
Branches: 184
Customers: 0.9 million

BCR

ROMANIA
Employees: 9,245
Branches: 667
Customers: 3.7 million

ERSTE BANK Croatia

CROATIA
Employees: 2,599
Branches: 146
Customers: 1.0 million

ERSTE BANK Serbia

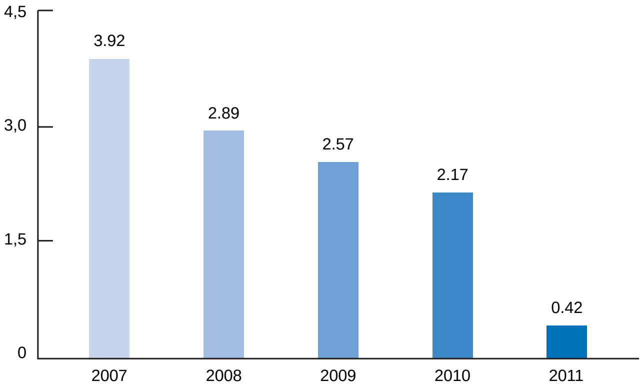
SERBIA
Employees: 919
Branches: 66
Customers: 0.3 million

Key Financial and Operating Data *

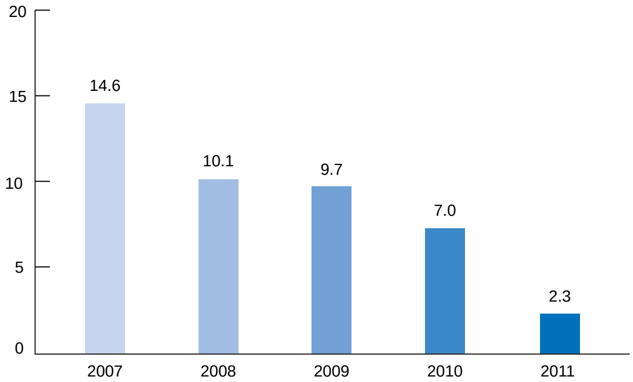
in EUR million (unless otherwise stated)	2007	2008	2009	2010	2011
Balance sheet					
Total assets	**200,519**	**201,441**	**201,513**	**205,770**	**210,006**
Loans and advances to credit institutions	14,937	14,344	13,140	12,496	7,578
Loans and advances to customers	113,956	126,185	128,755	132,334	134,750
Risk provisions for loans and advances	-3,296	-3,783	-4,954	-6,119	-7,027
Securities, other financial assets	42,404	39,238	40,298	39,957	44,008
Other assets	24,464	25,457	24,274	27,102	30,697
Total liabilities and equity	**200,519**	**201,441**	**201,513**	**205,770**	**210,006**
Deposits by banks	35,165	34,672	26,295	20,154	23,785
Customer deposits	100,116	109,305	112,042	117,016	118,880
Debt securities in issue and subordinated capital	36,667	36,530	35,760	37,136	36,565
Other liabilities	17,168	9,839	11,721	14,906	15,596
Equity attributable to non-controlling interests	2,951	3,016	3,321	3,444	3,143
Equity attributable to owners of the parent	8,452	8,079	12,374	13,114	12,037
Changes in total qualifying capital					
Risk-weighted assets pursuant to section 22 Austrian Banking Act	95,091	103,663	106,383	103,950	97,630
Qualifying consolidated capital pursuant to sections 23 & 34 Austrian Banking Act	11,114	11,758	15,772	16,220	16,415
Tier 1 capital	6,674	7,448	11,450	12,219	11,909
Hybrid capital	1,248	1,256	1,174	1,200	1,228
Solvency ratio pursuant to section 22 Austrian Banking Act	10.1%	9.8%	12.7%	13.5%	14.4%
Tier 1 ratio (total risk)	6.1%	6.2%	9.2%	10.2%	10.4%
Income statement					
Net interest income	3,945.8	4,913.1	5,220.9	5,439.2	5,569.0
Risk provisions for loans and advances	-454.7	-1,071.4	-2,056.6	-2,021.0	-2,266.9
Net fee and commission income	1,857.9	1,971.1	1,772.8	1,842.5	1,787.2
Net trading result	351.1	114.7	585.1	321.9	122.3
General administrative expenses	-3,642.1	-4,001.9	-3,807.4	-3,816.8	-3,850.9
Operating result	2,512.7	2,997.0	3,771.4	3,786.8	3,627.6
Pre-tax profit/loss	1,892.6	576.2	1,261.3	1,324.2	-322.2
Net profit/loss after minority interests	1,174.7	859.6	903.4	878.7	-718.9
Operating data					
Number of employees	52,442	52,648	50,488	50,272	50,452
Number of branches	2,907	3,147	3,205	3,204	3,190
Number of customers (million)	16.4	17.2	17.5	17.0	17.0
Share price and key ratios					
High (EUR)	61.50	49.20	31.15	35.59	39.45
Low (EUR)	44.00	13.25	7.00	25.10	10.65
Closing price (EUR)	48.50	16.20	26.06	35.14	13.59
Price/earnings ratio	13.1	6.0	10.9	15.1	na
Dividend per share (EUR)	0.75	0.65	0.65	0.70	0
Payout ratio	20.2%	24.0%	27.2%	30.1%	0.0%
Dividend yield	1.5%	4.0%	2.5%	2.0%	0.0%
Book value per share (EUR)	27.0	25.8	28.9	29.9	26.1
Price/book ratio	1.8	0.6	0.9	1.2	0.5
Total shareholder return (TSR)	-15.4%	-65.1%	64.9%	37.3%	-59.3%
Number of shares					
Number of shares outstanding	316,288,945	317,012,763	377,925,086	378,176,721	390,767,262
Average number of shares outstanding	312,039,861	313,218,568	322,206,516	374,695,868	377,670,141
Market capitalisation (EUR billion)	15.3	5.1	9.8	13.3	5.3
Trading volume (EUR billion)	23.1	29.4	13.3	15.3	10.9

*) The figures starting from 1 January 2010 are restated according to IAS 8. For further details see chapter C on accounting policies − restatement in the consolidated financial statements.
The term “net profit after minorities” corresponds to the term “net profit attributable to owners of the parent”.
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.

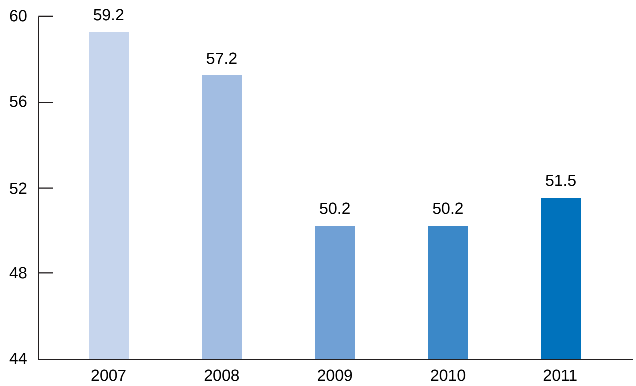
Cash earnings per share in EUR



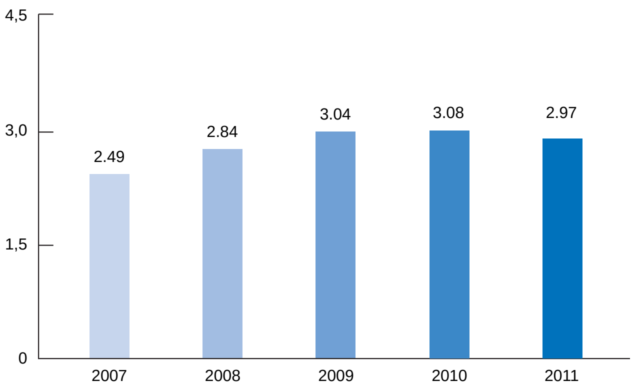
Cash return on equity (in %)



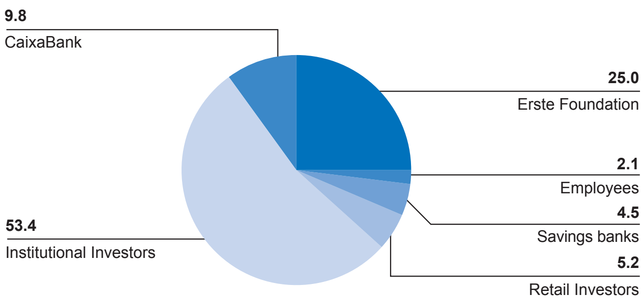
Cost/income ratio (in %)



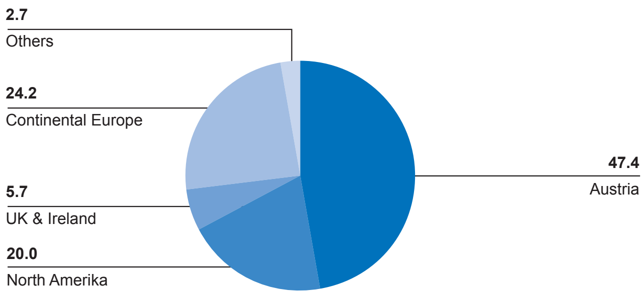
Net interest margin (in %)



Shareholder structure as at 31 December 2011 By investors (in %)



Shareholder structure as at 31 December 2011 By regions (in %)



Ratings as at 31 December 2011

Fitch	
Long-term	A
Short-term	F1
Outlook	Stable
Moody's Investors Service	
Long-term	A1
Short-term	P-1
Outlook	Under Review
Standard & Poor's	
Long-term	A
Short-term	A-1
Outlook	Negative

Financial calendar 2012

Date	Event
30 April 2012	Q1 2012 results
15 May 2012	Annual general meeting
31 May 2012	Dividend payment day - participation capital
31 July 2012	H1 2012 results
30 October 2012	Q3 2012 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).

Highlights

Operating result remains solid

_ **Positive development of important core markets**
_ **Cost/income ratio at 51.5%**

Net loss due to one-off effects

_ **Goodwill write downs in Hungary and Romania**
_ **Mark-to-market losses related to CDS investment portfolio**

NPL ratio at 8.5% at year-end 2011

_ **Asset quality improved in Czech Republic, Slovakia and Austria, deteriorated in Hungary and Romania**
_ **Risk costs impacted by extraordinary risk provisions**
_ **NPL coverage rose to 61.0% in 2011**

Excellent funding and liquidity position

_ **Strong deposit base is key competitive advantage**
_ **Successful issuance of covered and senior unsecured bonds**

Further improvement in capital ratios

_ **EBA core tier 1 ratio already at 8.9%**
_ **Reduction of RWAs in non-core business**

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Letter from the CEO

Dear shareholders,

The year 2011 was an extraordinary one for Erste Group. We posted our first-ever loss since our IPO in 1997 due to one-off effects comprising goodwill write-downs in relation to Hungary and Romania, additional risk provisioning requirements in Hungary, and a shift in the buy-and-hold strategy for our CDS investment portfolio. Of course, there were also positive developments: the economies of Central and Eastern Europe all returned to growth in 2011, and, on an operating level, even after allowing for rising risk costs, Erste Group remained very profitable thanks to good performance in the Czech Republic, Slovakia and Austria. Erste Group's capitalisation improved, with the core tier 1 and EBA ratios rising to 9.4% and 8.9%, respectively, at year-end 2011.

We have responded to the changed political and regulatory environment of 2011 and fine-tuned our strategy for our core and non-core activities: Our core retail and corporate customer business in the eastern part of the European Union will focus on balancing local currency lending and deposit gathering, thus reducing intra-group funding requirements over time and making local operations less vulnerable to political event risk. In addition, we aim to deepen the relationships with our customers. Our non-core businesses, by which I mean those not customer-related or not connected with Central and Eastern Europe, will be pared back over time in order to free up resources for future growth opportunities in Central and Eastern Europe.

CEE more dynamic than euro zone

While Central and Eastern Europe offers potential for long-term growth, economic growth in the euro zone – a market of major importance for the region – slowed in 2011. The deepening of the debt crisis in a number of peripheral countries and fears of a global recession weighed on sentiment. Nevertheless, the economy did not develop uniformly across Central and Eastern Europe either. Growth in the region was driven mainly by the export sector. Austria, the Czech Republic and Slovakia benefited from the strong performance of the German economy. In Austria, GDP was up 3.1%, rising at a rate faster than the euro zone average (1.5%). The Romanian economy, which is driven largely by domestic trade, emerged from the recession of the past two years mainly on the back of its agricultural sector's excellent performance. In addition, the take-up of EU funds increased. In Croatia, the economic recovery remained modest due to weak domestic demand. The Hungarian economy's performance suffered additionally from the government's policies. Overall, the East European states, with their lower levels of household and government debt and competitive manufacturing base, remained well positioned to cope even with the threat of a recession in the euro area.

Solid operating result cuts loss for the year

In a volatile environment, decisions needed to be taken that had major adverse impacts on Erste Group's annual result. In Hungary, unorthodox legislation exacerbated the consequences of foreign currency lending to retail customers, a practice that has long since been discontinued. We created risk provisions in the amount of EUR 200 million to cover losses from the early redemption of retail foreign currency mortgage loans at below-market rates, imposed by new legislation. Another EUR 250 million in risk provisions was necessary to increase the NPL coverage ratio. In addition, we wrote down the entire goodwill related to Erste Bank Hungary in the amount of EUR 312 million. The bank will be repositioned and, going forward, will focus on local currency lending funded from locally available liquidity. Further write-downs also had to be taken in Romania. Banca Comercială Română had been acquired at a time when the economy was booming. The knock-on effects of the subsequent financial and economic crisis resulted in a goodwill write-down in an amount of EUR 700 million. At the same time, we seized the opportunity to increase our stake in Banca Comercială Română by acquiring the shares from four of the five largest minority shareholders. Erste Group's increased ownership of 92.3% reflects our belief that Romania has above average economic convergence potential in the medium and long term.

The third one-off effect was due to the revaluation of our CDS investment portfolio at market prices. This portfolio was part of the International Business unit's diversified credit portfolio, which included bank and sovereign assets. In a profoundly changed market environment, the original intention of holding these instruments to maturity was no longer viable. The changes in fair value of the instruments resulted in a net loss of EUR 420 million, EUR 183 million of which was in 2011. In line with our focus on customer business in the eastern part of the European Union and to minimise future earnings volatility, we liquidated this portfolio with a net nominal amount of EUR 5.2 billion in the fourth quarter.

Due to these one-off effects, Erste Group posted a pre-tax loss before minorities for 2011 in the amount of EUR 322.2 million and a loss for the year after taxes and minorities of EUR 718.9 million while still generating a strong operating result. This was attributable to the solid performance of some key core businesses and a stable cost basis. Net interest income was up slightly. A decline in the securities business resulted in slightly lower net fee and commission income. The net trading result was impacted by the changes in fair value of the CDS book. Goodwill write-downs and the Austrian banking tax impacted adversely upon the other operating result. Overall, Erste Group's operating result declined slightly to EUR 3.6 billion but underscored once again the sustainable profitability of the core business.

Within our region, Česká spořitelna, Slovenská sporiteľňa, Erste Bank Oesterreich and Erste Bank Croatia performed particularly well and made major contributions to the solid operating result. The differences in the development of the individual economies were reflected in asset quality, which improved in the key markets of Austria, the Czech Republic, and Slovakia. In some of the east European countries, however, the SME segment and the real estate business again negatively influenced earnings. Even though NPL growth has slowed again, the need for higher provisioning in Hungary caused risk costs to rise to 168 basis points of average customer loans. The NPL ratio based on customer loans increased to 8.5%, although NPL coverage improved to 61.0%.

Well prepared for new regulations

After years of debate, the new capital adequacy and liquidity standards for banks became clearer in 2011. On the one hand, the European Banking Authority (EBA) fixed a minimum core capital ratio (excluding private participation capital) of 9% to be met by 30 June 2012; on the other hand, the Austrian central bank announced the early introduction of Basel 3 rules as of 1 January 2013. These rules require a core capital ratio of 7%, which from 2016 will be increased by up to three percentage points for major Austrian banks. The only significant question not yet answered concerns recognition of the minority capital of the savings banks. We are therefore reviewing alternative options for our collaboration with the Austrian savings banks to offset any disadvantages that may arise for Erste Group from non-recognition of minority capital. Overall, we will meet all capital adequacy and liquidity standards in due time, particularly on account of the continuing profitability of our core business.

Focus on customer business in the eastern part of the European Union

Erste Group's key strength has been and continues to be its business model, which for nearly 200 years has relied on long-lasting and stable customer relationships. The events of 2011 have even further strengthened our conviction as to the value in that model. Therefore, our business with retail and corporate customers as well as with public sector clients in the eastern part of the European Union and in Austria will have an even more substantial impact on our earnings in future than it has to date. To maintain a comprehensive and sustainable portfolio of products, we will continue also to engage in customer-driven capital market transactions while accessing the interbank market to safeguard short-term liquidity.

As I conveyed at the beginning, 2011 was not an easy year for Erste Group. We will therefore propose to the general shareholders' meeting to pay no dividend to shareholders for the financial year 2011 but to continue servicing the participation capital.

As in previous years, we did our best in 2011 to take decisions in a timely and sustainable manner, even if these have occasionally been criticised. This criticism has not been without impact on our employees, which is why I want to address my special thanks to them at this time. With their focus on customer service, their professional attitude and commitment, they make a major contribution to retaining the trust that our customers place in Erste Group.

Andreas Treichl mp

Management Board

ANDREAS TREICHL

Appointed until June 2017

Born in 1952

Responsibilities:
Strategy & Participation Management
Group Secretariat
Group Communications
Group Investor Relations
Group Human Resources
Group Audit
Group Marketing
Employees' Council
Group Retail

FRANZ HOCHSTRASSER

Appointed until June 2017

Born in 1963

Responsibilities:
Group Research
Group Capital Markets
Group Investment Banking
Group Large Corporates Banking
Steering & Services
Erste Group Immorent Client, Industries & Infrastructure

HERBERT JURANEK

Appointed until June 2017

Born in 1966

Responsibilities:
Group Organisation/IT
Group Operations/Markets
Group Operations Retail & Corporate
Group Services

GERNOT MITTENDORFER

Appointed until June 2017
Born in 1964

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

MANFRED WIMMER

Appointed until June 2017
Born in 1956

Responsibilities:
Group Accounting
Group Performance Management
Group Balance Sheet Management

MARTIN ŠKOPEK

Management board member until 31 January 2012
Born in 1967

BERNHARD SPALT

Management board member until 31 January 2012
Born in 1968

Report of the Supervisory Board

Dear shareholders,

The year 2011 presented formidable challenges not only for Erste Group's management board but also for the supervisory board. The economic performance was predominantly influenced by the spreading sovereign debt crisis at the euro zone's periphery, and this also impacted upon Erste Group. At a joint extraordinary meeting of the management and supervisory boards on 10 October 2011, the management board adopted far-reaching decisions pertaining to the write-down of goodwill in Hungary and Romania, alignment of the effective interest rate method across the Group, and presentation of the CDS portfolio of the International Business unit. These measures resulted in extraordinary one-off expenses and brought about a net loss despite the positive operating result in 2011. From the supervisory board's perspective, the decisions were appropriate and crucial as well as consistent with a strong focus on the retail and corporate businesses in Central and Eastern Europe that constitute the core competencies of Erste Group.

In the course of 35 supervisory board and committee meetings, the management board promptly and comprehensively informed the supervisory board, in both written and oral forms, about all business matters. This allowed us to act in accordance with the mandate set down for us in the law, the articles of association and the Corporate Governance Code, as well as to ascertain the proper conduct of business.

The financial statements (consisting of the balance sheet, income statement and notes), the management report, the consolidated financial statements and the group management report for 2011 were audited by the legally mandated auditor, Sparkassen-Prüfungsverband, and by Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H., as supplementary auditor, receiving an unqualified audit opinion. Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. was also contracted to perform a discretionary audit of the 2011 Corporate Governance Report. The audit did not give rise to any qualifications. Representatives of both auditors attended the financial statements review meeting of the supervisory board and presented their comments on the audits they conducted.

Based upon our own review, we hereby endorse the findings of these audits.

We have approved the financial statements, which are now duly endorsed in accordance with Section 96 (4) of the Austrian Stock Corporation Act. The management report, consolidated financial statements, group management report and Corporate Governance Report have been acknowledged and accepted.

For there to be payment of dividends, the financial statements must show a profit available for distribution or an annual profit. In accordance with the terms for the participation certificates issued by Erste Group Bank AG, the distribution of dividends in the full amount to the holders of participation certificates takes precedence over the distribution of dividends to shareholders. As no profit will be available for distribution once dividends have been disbursed to the holders of participation certificates, we have endorsed the proposal put forward by the management board to pay out a dividend to holders of participation certificates but not to shareholders.

At its meeting on 14 December 2011, the supervisory board agreed to reduce the size of the management board from seven to five members. Former management board members Bernhard Spalt and Martin Škopek took on management board appointments at Erste Bank Hungary and Banca Comercială Română, respectively. The terms of the five management board members Andreas Treichl, Franz Hochstrasser, Manfred Wimmer, Gernot Mittendorfer and Herbert Juranek were extended by five years. Moreover, individual agendas were re-aligned between the five remaining management board members. By slimming down its organisational structure, Erste Group sent out a clear signal in support of cost efficiency.

For the supervisory board:

Heinz Kessler mp
Chairman of the Supervisory Board
Vienna, March 2012

Erste Group on the Capital Markets

The financial crisis that had broken out more than three years ago escalated during 2011 into a debt crisis, and its impacts on the euro and economic activity led to high volatility and heavy losses in international equity markets. The Erste Group share was unable to escape the general downward trend among financial stocks. As in 2008, the share price declined by more than 60% after more than doubling in the two years following the low at year-end 2008.

STOCK MARKET PERFORMANCE

2011 sent stock markets lower world-wide

With just a few exceptions, international markets closed the year at a loss. Of the major financial market indices, only the US Dow Jones Index ended the extremely turbulent 2011 with a gain, rising 5.5% to 12,217.56 points. Apart from slumping after the earthquake and nuclear disaster in Japan, stock market performance was positive in the first months of the year. In the second half, however, concern about global economic trends and exacerbation of the banking and sovereign debt crisis in Europe pushed prices down at double-digit rates in most European and Asian markets. The Euro Stoxx 600 Index, which is composed of the biggest European companies, declined by 11.3%. The markets of the euro zone crisis countries sustained even heavier losses.

Debt crisis spread to the EU core countries

The multi-billion euro rescue packages provided by governments and central banks to support the financial system and economy failed to sustainably restore calm in the international financial markets. With sovereign default looming over Greece, pressure on Italy, Spain and France intensified as well. Later, the focus was on the announcement of austerity packages by those countries affected and actions by the EU Council. Seeing no strategy to comprehensively resolve the debt problem, rating agencies threatened to downgrade several euro zone countries. In view of Hungary's unorthodox economic policies, Moody's and Standard & Poor's downgraded that country's sovereign debt to non-investment grade. The euro has been under pressure, and particularly since the summer.

Weak economic data prompted central bank intervention

Looking forward, the OECD and many economists have warned of recession in the euro zone and deterioration of the global economic climate. In the US, an escalation of the euro crisis has been seen as the greatest risk to the US economy. The high sovereign debt of the US, which led to a downgrade of its rating by Standard & Poor's, was an additional negative factor. The US Federal Reserve decided to keep its fed funds rate at the historic low of zero to 0.25% until mid-2013. In view of the slowdown in economic growth in the euro zone, the ECB (European Central Bank) cut its key interest rate to 1%. To maintain liquidity in the financial system and prevent a credit crunch, European banks were offered easier access to funding.

European banking index declined by 37.6% to 100.34 points

The tight liquidity and funding situation combined with regulatory changes accelerated the downtrend of the Dow Jones Euro Stoxx Bank Index, which is composed of leading European bank shares. Measures taken by the ECB and central banks of the US, Canada, Japan, Great Britain, and Switzerland to boost the money supply buoyed the markets only for a short time. The rating agencies' downgrading of many banks' credit standings heightened uncertainty in the European interbank market. According to stress test results released by the European Banking Authority (EBA) in early December, the 70 banks covered needed additional capital totalling EUR 115 billion to meet the core capital ratio of 9% set by the regulators for 30 June 2012.

Disproportionate decline of ATX

The Austrian Traded Index (ATX) closed the year at 1,891.68 points for a loss of 34.9% year on year. After rising beyond the 3,000 mark in mid-February, the index had been pressed down by escalation of the European debt crisis and sharply lower share prices for index heavyweights from the financial sector. In addition, the new Austrian withholding tax on capital gains from securities reduced liquidity at the Vienna Stock Exchange. Of the 20 ATX shares, only two were up for the year. At year-end, the ATX's market capitalisation stood at EUR 73 billion (2010: EUR 91 billion).

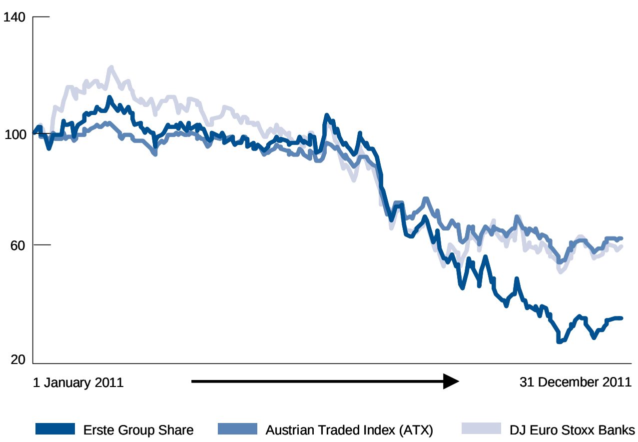
ERSTE GROUP SHARE

Debt crisis and regulators' tightening of liquidity and capital requirements weighed on the Erste Group share price

After its good start into the year, the Erste Group share was unable to escape the effects of the debt crisis on the European banking sector. While European bank stocks had been already down sharply, the Erste Group share initially exhibited relatively little volatility. It ended the first half of 2011 still above its year-end closing price from 2010.

As the year progressed, massive declines in international equity markets triggered by the negative market environment and the special situation in Hungary had a strong adverse impact on the Erste Group share price. In the third quarter alone, the price fell by 46.4%. Due to the capital requirements defined by EBA and additional restrictive capital and lending rules and guidelines announced by the FMA (Financial Market Authority) and Oesterreichische Nationalbank (Austria's central bank) on the Austrian banks' business in Eastern Europe – calling for additional core capital of up to 3 percentage points from 1 January 2016 and a loan to stable local funding ratio of not more than 110% – the Erste Group share hit its low at EUR 10.645 on 23 November.

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



After the announcement of mark-to-market losses on credit default swaps and write-downs of goodwill in Hungary and Romania, analysts and investors focused their attention on Erste Group's capitalisation and its exposure to those European countries that were hit most severely by the debt crisis. Analysts nevertheless received positively statements made by Erste Group at its capital market day in December regarding its reducing exposure to south-European countries and its capital planning in the light of changes in the regulatory environment.

At year-end 2011, the Erste Group share traded at EUR 13.585, down 61.3% versus 2010's close. The Erste Group share price had thus lost significantly more than had either the ATX (-34.9%) or the DJ Euro Stoxx Bank Index (-37.6%).

Performance of the Erste Group Share*

	Erste Group share	ATX	DJ Euro Stoxx Bank Index
Since IPO (Dec 1997)	22.6%	45.0%	–
Since SPO (Sep 2000)	15.6%	61.9%	-71.5%
Since SPO (Jul 2002)	-22.0%	55.1%	-60.1%
Since SPO (Jan 2006)	-69.8%	-51.4%	-73.5%
Since SPO (Nov 2009)	-53.2%	-27.4%	-55.9%
2011	-61.3%	-34.9%	-37.6%

*) IPO – initial public offering, SPO – secondary public offering.

Number of shares, market capitalisation and trading volume

Employee share ownership programme transactions in May increased the number of Erste Group shares from 378,176,721 by 289,663 to 378,466,384. The initial trading date of the new shares was 14 June. In September, Erste Group signed an agreement with four regional Romanian investment funds on the acquisition of additional stakes in BCR of up to 24.12% against payment of cash and issuance of new Erste Group shares in multiple tranches. The first tranche comprising 4,249,746 new shares was issued on 23 November and became tradable on 28 November. The second tranche of 4,025,566 new shares was first tradable on 12 December. The third tranche of 4,025,566 new shares was issued on 15 December and was first tradable on 19 December. All new shares of Erste Group are traded on the stock exchanges of Vienna, Prague, and Bucharest. Overall, these transactions increased the number of shares from 378,466,384 by 12,300,878 to 390,767,262 shares at year-end 2011. Due to the share price decline, Erste Group's market capitalisation diminished to EUR 5.3 billion at year-end 2011 from EUR 13.3 billion in 2010.

The trading volume of Erste Group shares was down in 2011. On average, 867,676 Erste Group shares per day were traded on the Vienna Stock Exchange (2010: 1,020,482). This reflects a decrease of average daily trading volume by almost 15%. Trading volume on the Prague Stock Exchange (PSE), where the shares of Erste Group have been listed since October 2002, rose by around 18% versus the previous year to 316,404 shares per day. On the Bucharest Stock Exchange (BVB), the average daily volume in Erste Group shares, which have been listed there since 14 February 2008, was 7,495 shares (2010: 5,523).

Erste Group in sustainability indices

Erste Group has been included in VÖNIX, the Vienna Stock Exchange's sustainability index, since its launch in 2008 and, since 2010, in the ASPI Eurozone®-Index. In 2011, the Erste Group share was included into the newly created STOXX Global ESG Leaders Index, which is based on the STOXX Global 1800 and is composed of leading sustainable companies worldwide, including 26 financial institutions.

DIVIDEND

Since 2005, Erste Group's dividend policy has been guided by the bank's profitability, growth outlook and capital requirements. The dividend for the financial year 2010, raised slightly to EUR 0.70/share, was approved by the general shareholders' meeting and paid out on 19 May 2011. The 8% p.a. dividend payment on the participation capital of EUR 1.76 billion was paid on 26 May 2011. The management board of Erste Group Bank AG will propose to the general shareholders' meeting to pay no dividend for the financial year 2011 but to continue servicing the participation capital.

SUCCESSFUL FUNDING

Although debt markets remained volatile in 2011, Erste Group three times during the year used windows of opportunity to tap into the international markets with benchmark transactions. It went to the market early in January 2011 with a EUR 1 billion 10-year mortgage Pfandbrief (covered bond). In spring, a 5-year senior unsecured bond was placed with large international participation. There followed a 7-year public sector Pfandbrief in August, which was placed in a deteriorating market. The funding plan for 2011 of EUR 5.0 billion was successfully achieved, and EUR 3.0 billion of that was in Pfandbrief format. The average maturity of the new issues was 7.7 years, which was a notable accomplishment after years of shorter-dated issuances. Some 20% of the funding was placed into the retail market. Erste Group's funding plans for 2012 will be smaller, with a target of EUR 3.5 billion.

INVESTOR RELATIONS

Open and regular communication with investors and analysts

In 2011, Erste Group's management and the investor relations team met with investors in a total of 439 one-on-one and group meetings (2010: 491 meetings). Presentation of the first-quarter results was followed by the spring road show in Europe and the US and the annual analysts' dinner in London. A second road show was conducted in autumn after the release of third-quarter results. Erste Group presented its strategy in the current operating environment at 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, Macquarie, and Barclays. The dialogue with bond investors was intensified, as well. At workshops and road shows, 75 one-on-one meetings were held with credit analysts and portfolio managers. Frequently, these focused on Pfandbriefe.
On 5 April, an internet chat with Erste Group's CEO was held for the ninth time. The chat provided a chance for many retail investors and the general public to communicate directly with the chairman of the management board, Andreas Treichl.

Erste Group held its 8th capital market day in Vienna on 9 December. This was attended by 41 analysts and investors. As one of the leading providers of financial services in Austria and Central and Eastern Europe, Erste Group used this opportunity to reiterate its commitment to this region. The management provided an update on current developments in Erste Group markets and on measures planned in view of the challenging macroeconomic environment.

Comprehensive information on Erste Group and its share is available on the Group's website at www.erstegroup.com/en/Investors. Since early June, investors and the broader public have been able to follow the investor relations team also on the social media platform Twitter at #ErsteGroupIR, which provides users with the latest news on Erste Group in the social network.

At the annual Investor Relations Awards event held at the end of June, international analysts recognised the Erste Group's investor relations team for its focus on "transparency and competent communication with our investors as our top priority". Erste Group's investor relations team won the award for the best investor relations performance of an Austrian company.

Analyst recommendations

In 2011, about 30 analysts released periodic research reports about Erste Group, among them two initial coverage analyses. The Erste Group share was covered by the following national and international financial analysts: Atlantik Ft, Autonomous, Bank of America Merrill Lynch, Barclays, Berenberg, Cheuvreux, Citigroup, Concorde, Credit Suisse, Cyrrus, Deutsche Bank, Exane BNP Paribas, Goldman Sachs, HSBC, ING, JP Morgan, KBW, Kepler, Macquarie, Mediobanca, Morgan Stanley, Nomura, RCB, Royal Bank of Canada, Silkroute, SocGen, UBS, and Wood.

At year-end, 46% of the analysts had issued buy recommendations (2010: 67%), 42% rated the Erste Group share neutral (2010: 25%), and 12% (2010: 8%) had sell recommendations. The average target price was EUR 20.52. The latest updates on analysts' estimates for the Erste Group share are posted at:
http://www.erstegroup.com/en/Investors/Share/AnalystEstimates.

Strategy

An historic principle: serving customer needs

Ever since its foundation in 1819 as Central Europe's first savings bank, Erste Group has been pursuing a business strategy focused upon the real economy. This orientation was changed neither when it went public in 1997 nor by increasing regulatory and political interventions in the banking sector. Quite the contrary: The developments of recent years have strengthened our resolve to focus even more consistently on Erste Group's core activities, which are to provide banking services on a sustainable basis to private individuals, businesses and the public sector in the eastern part of the European Union and in Austria. Activities that do not fit this definition will be adjusted or reduced over the medium term. This is what differentiates Erste Group from investment banks or other banks whose business is not embedded in the real economy.

As our operations developed and became more international, our core activities evolved as well, from those of a savings bank focused on retail lending and deposit-taking into those of a financial group providing banking services to all sectors of the economy. In addition to Erste Group's traditional strength in serving private individuals, our core activities include advisory services and support for our corporate clients in matters of financing, investment, hedging activities and access to international capital markets. Another part of Erste Group's core activities is public sector funding by investing part of its liquidity into sovereign bonds issued in our core region. To meet the short-term liquidity management needs of our customer business, we also operate in the interbank market.

It is important for us to develop client relationships beyond pure lending and deposit-collection that benefit both our customers and Erste Group itself, for only a bank that is financially strong is able to offer services on sustainably attractive terms. We therefore strive to be our customers' principal bank, or at least their most important banking relationship. This applies not only to Erste Group's retail business but also to our large corporate and real estate business and to the serving of entities in the public sector. This applies equally to every country within which Erste Group operates. As we occupy very strong market positions in most of our markets, we also have the resources to achieve this objective.

Our core region: Austria and the eastern part of the European Union

When Erste Group went public in 1997, we defined our core region as consisting of Austria and that part of Europe that offers the best structural and therefore long-term growth prospects, namely Central and Eastern Europe. Many countries of Central Europe have special ties to Austria, not only because of their geographical proximity but also due to a common cultural heritage and shared history, which was interrupted by the division of Europe after World War II but restored after the demise of Communist dictatorships in the late 1980s. In the early 20th century, regions like today's Czech Republic and Hungary had been economically as advanced, or even more advanced, than was Austria. That had been true also in terms of banking, as the savings bank philosophy had spread to all of Central Europe. Decades of a command economy, however, restrained development and the subsequent transition to a market economy has resulted in enormous potential for growth and the need to meet pent-up demand. Against the backdrop of emerging European integration and limited potential for growth in Austria, we grasped this opportunity and from the late 1990s onward acquired savings banks and financial institutions in neighbouring countries.

Erste Group today operates extensive branch networks in our core markets of Austria, the Czech Republic, Slovakia, Hungary and Romania – all of which are members of the European Union – as well as in Croatia, which is set to join the EU in July 2013. Following significant investments into our subsidiaries, Erste Group holds leading market positions in many of these countries and therefore focuses on organic growth. In Serbia, which has now been assigned EU candidate status, we maintain a minor market presence, but one which may be quickly expanded through acquisitions or organic growth as the country makes progress on EU integration. Ukraine is not seeking European Union membership in the medium term, and therefore we do not regard it as a core market. In addition to our core markets and Ukraine, Erste Group also owns direct and indirect majority and minority banking participations in Slovenia, Montenegro, Bosnia and Herzegovina, Macedonia and Moldova. These operations mainly focus on serving private individuals and corporate customers. In our capital markets business, we maintain additional presences in Poland, Turkey, Germany and London. Internationally, Erste Group also operates branches in London, New York and Hong Kong which focus on lending and treasury business and whose future strategic role is currently under review.

Erste Group's strategy

Customer banking in Central and Eastern Europe

Eastern part of EU		Focus on CEE, limited exposure to other Europe		
Retail banking	**Corporate banking**	**Capital markets**	**Public sector**	**Interbank business**
Focus on local currency mortgage and consumer loans funded by local deposits FX loans only where funded by local FX deposits (RO & HR) Savings products, asset management and pension products Potential future expansion into Poland	Large, local corporate and SME banking Advisory services, with focus on providing access to capital markets and corporate finance Real estate business that goes beyond financing Potential future expansion into Poland	Focus on customer business, incl. customer-based trading activities In addition to core markets, presences in Poland, Turkey, Germany and London with institutional client focus and selected product mix Building debt and equity capital markets in CEE	Financing sovereigns and municipalities with focus on infrastructure development in core markets Any sovereign holdings are only held for market-making, liquidity or balance sheet management reasons	Focus on banks that operate in the core markets Any bank exposure is only held for liquidity or balance sheet management reasons or to support client business

Sustainability created by our business model

Erste Group creates value by doing exactly what a customer-centred bank should do for the real economy: It uses the money collected from savers to make loans to people who wish to buy a home for their families or finance companies that make investments, pursue ideas and create jobs. Any material deviation from this principle that may have occurred in the past will be eliminated by reducing activities that are not part of Erste Group's core business or by realigning the core business. For example, we will no longer grant foreign currency loans to customers who do not have corresponding foreign currency income or are not hedged against currency volatility by other instruments. In practice, this means that henceforth we will not provide foreign currency loans to private individuals on any significant scale in Austria and Hungary. In Romania, we are working resolutely on alternative local currency products.

The same sustainable approach is being employed in liquidity and capital planning. Due to its strong deposit business, Erste Group collectively enjoys an excellent liquidity position. That situation varies, however, at the level of individual entities: While countries such as the Czech Republic and Slovakia boast deposit surpluses, the reverse is true in Hungary and in Romania, mainly due to the existence of foreign currency loan portfolios. It is our aim, therefore, to rebalance deposits and loans in the course of time, and in particular in each of the relevant currencies. Hence, we are working in conformity with regulatory efforts to promote self-funding from local deposits.

THE STRATEGY IN DETAIL

The basis of Erste Group's banking operations is the customer business in Central and Eastern Europe. While in all business areas and, especially, in the retail and corporate segments, the geographical focus is clearly on the eastern part of the European Union, the capital markets and interbank activities as well as the public sector business are defined a little more broadly to be able to meet customer needs as effectively as possible.

Retail business

Erste Group's key business is the retail business, covering the entire spectrum from lending, deposit and investment products to current accounts and credit cards. This is where the largest part of our capital is tied up, where we generate most of our income and fund the overwhelming part of our other core activities by drawing on our customers' deposits. The retail business represents our strength and is our top priority when developing our product offer.

We serve a total of 17.0 million customers in our eight most important markets and operate some 3,200 branches. In addition, we use alternative distribution channels such as internet and phone banking. Our core competence in retail banking has historical roots. In 1819, wealthy Viennese citizens had donated funds to establish Erste Group's predecessor, the first savings bank in Central Europe. Their aim had been to bring basic banking services to wide sections of the population.

In today's context, retail banking is attractive to us for a number of reasons: It offers a compelling business case that is built on market leadership, an attractive risk–reward profile and the principle of self-funding, as well as a comprehensive range of products that are simple and easy to understand and provide substantial cross-selling potential. Only a retail bank with an extensive branch network is able to fund loans in local currency mainly from deposits made in that same currency. We are in such a position of strength, and Erste Group will be guided by this aspect of its business model even more strongly in future. In short, our retail banking model supports sustainable and deposit-funded growth even in economically more challenging times.

Another positive factor is diversification of the retail business across countries that are at different stages of economic development, such as Austria, the Czech Republic, Romania, Slovakia, Hungary, Croatia, Serbia and Ukraine.

Corporate business

Our second main segment, which also makes a major contribution to the earnings of Erste Group, is our business with small and medium-sized enterprises, regional and multinational groups, and real estate companies. Our goal is to enhance the relationships with these clients beyond the pure lending business. Specifically, in our core region, our goal is for corporate customers to choose Erste Group as their principal bank and, above and beyond obtaining financing, also to route their payment transfers through us and, quite generally, regard Erste Group as their first point of contact for any kind of banking service.

Catering to their different requirements, small and medium-sized enterprises are served locally in branches or separate commercial centres while multinational groups are serviced by the Group Corporate and Investment Banking division. This approach permits us to combine industry-specific and product expertise with an awareness of regional needs and the experience of our local customer relationship managers.
In view of the regulatory reform efforts commonly referred to as Basel 3, advising and supporting our corporate customers in capital market transactions is becoming increasingly important. As these activities form an integral part of our corporate business, we are focused on becoming the leading investment bank in our core region. In pursuit of this strategic goal, we established Group Markets as a separate division within our group as of 2007.

Capital markets business

Client-driven capital markets activities have been and will continue to be part of the comprehensive portfolio of products and services we offer to our retail and corporate clients. The strategic significance of Erste Group's centrally governed and locally rooted capital markets operations consists in supporting all other business areas in their dealings with the capital markets and, hence, in providing our customers with professional access to the financial markets. We therefore view our capital markets business as a link between the financial markets and our customers. As a key capital markets player in our core markets, we also perform important functions such as market-making, capital market research, and product structuring.

The clear focus of our work has always been on the needs of our customers: most importantly, our retail and corporate clients as well as government entities and financial institutions. Due to our divisionalised organisation and strong network in Central and Eastern Europe, we have a thorough understanding of local markets and customer needs. In our capital markets business, too, we concentrate on key markets of our retail and corporate business: Austria, the Czech Republic, Slovakia, Hungary, Romania and Croatia. For institutional clients, designated teams have been established in Germany, Poland, Turkey and London which offer these clients a selective range of products.

In many countries where Erste Group operates, the local capital markets are not yet as highly developed as in Western Europe or in the US. That means we are pioneers in some markets. Building more efficient capital markets where we operate is thus another strategic objective of our Group Markets division, especially against the backdrop of new regulatory guidelines that require local funding of the banking business.

Public sector business

A solid deposit business is one of the key pillars of our business model. Accordingly, customer deposits surpass lending volume in many of our core markets. Erste Group makes a significant part of this liquidity available as financing to the region's public sector entities. In this way, we fund, among other things, indispensable public sector investment. Erste Group's public sector clients are primarily municipalities, regional entities and sovereigns. Apart from arranging finance for these clients, we support and advise them in capital market issuances, infrastructure financing and project financing. In addition, we cooperate with supranational institutions.

Especially in the public sector segment, we will be seeking in future to bundle our resources in the core markets and to cut back investments into bonds issued by sovereigns outside Central and Eastern Europe.

Adequate transport and energy infrastructure and municipal services are key prerequisites for long-term sustainable economic growth. Therefore, Erste Group views infrastructure finance and all financial services associated with it to be of key importance. Until 2013, the European Union will make about EUR 100 billion available to the Czech Republic, Slovakia, Croatia, Hungary and Romania under a range of European funding programmes. Here, a special highlight is our commitment to infrastructure development in Romania. Our Romanian subsidiary Banca Comercială Română supports investment in essential infrastructure by funding key companies in all sectors.

Interbank business

The interbank business is an integral part of our business model that performs the strategic function of making sure that the liquidity needs of our customer business are met. This involves, in particular, short-term borrowing and lending of cash from and to other financial institutions.

LONG-TERM GROWTH TRENDS IN CENTRAL AND EASTERN EUROPE

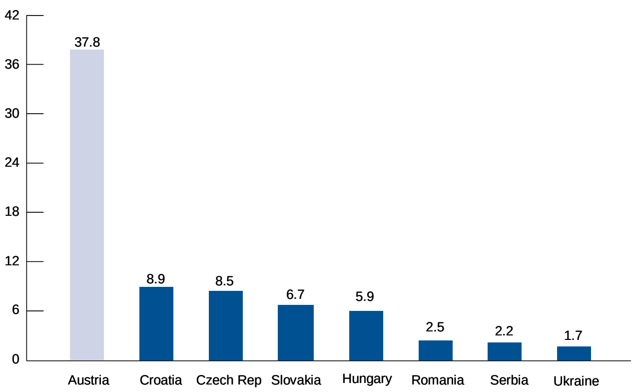
While the financial and economic crisis has slowed the economic catching-up process across the countries of Central and Eastern Europe, the underlying convergence trend continues unabated. The region must make up for almost half a century of Communist mismanagement of the economy, during which time banking activities were largely non-existent. In addition, most countries of Central and Eastern Europe boast human resources that are at least equivalent to those of Western European countries but need not struggle with the unsustainable costs of the western welfare states and have labour markets that are considerably more flexible. These advantages are rounded off by highly competitive export industries, which benefit from wage costs that are low relative to workforce productivity and from investor-friendly tax and welfare systems. Over the next 15 to 20 years, these countries will therefore see much faster growth than will those of Western Europe, even though we might see periods of rapid expansion alternating with times of economic stagnation or even setbacks on this long-term path of sustainable growth.

BANKING GROWTH IN CENTRAL AND EASTERN EUROPE

In many of the countries where Erste Group operates, and with the exception of deposit products, modern banking services were all but unknown until a few years ago. On the lending side, this was first because nominal and real interest rates were high, second because disposable incomes did not support household credit growth, and third because extensive state ownership meant that a healthy competitive environment was lacking. All this has changed in recent years. In the emerging transformation countries, interest rates are in the process of convergence or have already converged to euro levels. Disposable incomes have risen strongly on the back of GDP growth. Most formerly state-owned banks have been sold to strategic investors who fostered product innovation and competition. Even in the face of the recent economic slowdown and temporary negative impacts on the banking markets in Central and Eastern Europe, this combination will be the driving force behind future development.

A comparison of per-capita debt levels in Central and Eastern Europe with those of advanced economies reveals that an enormous gap 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 Western European levels of loans per capita. Even in relative terms these countries lag far behind debt levels common in the West. The contrast to Serbia or Ukraine is even more pronounced. In short, private debt, and particularly household debt, remains substantially lower than in the advanced economies. Even though the developments of very recent years will likely lead to a reassessment of what constitutes acceptable debt levels and to only a gradual rise in lending in Central and Eastern Europe, we still firmly believe that credit expansion accompanied by long-term economic growth will prove to be a lasting trend rather than a short-term process that has already peaked.

Customer loans/capita in CEE (2011) in EUR thousand

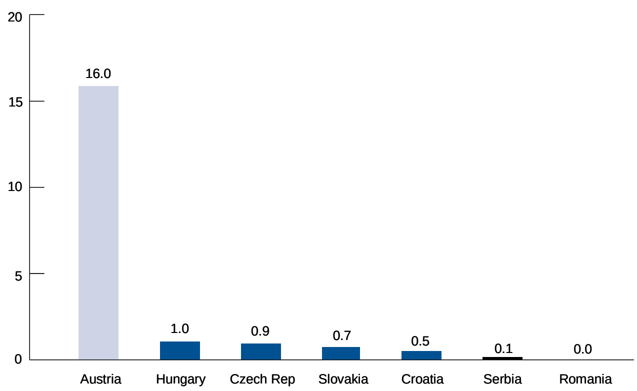


Source: Local central banks, Erste Group

Wealth management

As customers become more prosperous, another source of long-term growth will be wealth management, which is embraced by Erste Group's affluent banking and fund management activities. Irrespective of when this business will begin to make a significant contribution, we already are uniquely positioned to benefit from any such development. In our existing Central and East European universe, we dominate the fund management markets with a market share of almost 20%. In addition, we can draw on our experience in Austria, where we lead the market with a share of 21.8%. Erste Group formerly was active in the life insurance business and had maintained a significant presence in all key CEE markets. In 2008, we sold off these operations to Vienna Insurance Group and entered into a long-term distribution agreement with that organisation. In this way, Erste Group will continue to benefit from the expected rise in demand for insurance products.

Funds/capita in CEE (2011) in EUR thousand



Source: Local fund management associations, Erste Group

The growth dynamics in fund management differ fundamentally from those seen in standard banking products, as growth typically kicks in only at a later stage of economic development. Based on past experience in Austria, we expect that fund management will reach a critical mass as soon as nominal GDP per capita substantially and sustainably exceeds the EUR 10,000 mark. Almost all of our core markets – 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 begins shifting towards providing for the future. The relatively slow economic recovery has certainly clouded the outlook for 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. In the long term, however, wealth management offers huge potential in Central and Eastern Europe and we are excellently positioned to develop this potential.

CONTINUING DEVELOPMENT OF OUR CUSTOMER BUSINESS

Even as we believe that Erste Group is operating in a region offering above-average long-term growth potential in traditional banking and wealth management, the fact is that we have already established a presence in all major countries in the eastern part of the European Union, with the exception of Poland. Today, we are market leaders in the Czech Republic, in Slovakia, and in Romania. Erste Group's local subsidiaries are among the top five banks in Hungary and Croatia and hold small market shares in Ukraine and Serbia. Erste Group's future development will therefore be driven by organic growth rather than by major acquisitions.

Management Report

ECONOMIC ENVIRONMENT IN 2011

Economic developments in 2011 were characterised by unexpected events, including two supply shocks due to the tsunami in Japan and the Arab Spring protests, a drastic surge in oil prices during the first half of the year, the escalating debt crisis in some euro zone countries, and S&P's rating downgrade of the US. All these events impacted the global economy during 2011, with the development of energy prices and rising uncertainty about the economy playing crucial roles in the downside surprise on GDP growth and the upside surprise on inflation. The latter squeezed household purchasing power and consumption. Although the natural disaster in Japan led to supply chain disruptions in the global automotive, machinery and high-tech industries, the country's production emerged from its post-tsunami setback at a relatively quick pace.

The correction of supply chain disruptions, the decrease in oil prices in the second half of 2011 and ongoing support from Federal Reserve easing helped the US economy to maintain its recovery. Economic growth in Asia continued to outperform that of Europe and the US, driven mainly by China and India. European exporting countries benefited from the improvement, starting with Germany, the continent's leading economy. After a strong first quarter, however, the euro zone economy slowed sharply from the second quarter onwards. The escalating debt crisis in some peripheral countries and fears of global recession depressed sentiment; as a result GDP growth in the euro zone declined to 1.5% for 2011. All in all, however, the world economy grew by 3.8% in 2011, after 4.8% in 2010.

Austria continued to grow faster than the euro zone average in 2011, with its GDP rising by 3.3%. Exports performed well, with Germany remaining the key export market with a share of more than 30%. Domestic demand also contributed to growth. The unemployment rate reflected the growing economy and declined to 4.1%, one of the lowest in Europe. Measured in terms of GDP per capita at approximately EUR 36,000, Austria remained one of the euro zone's most prosperous countries in 2011. Rating agencies also acknowledged Austria's economic performance along with its social and political stability, strong institutions, and a highly educated and flexible workforce. As a result, at the close of 2011, Austria was one of the European countries assigned the highest credit grades by the rating agencies. Both private household debt and public debt as a percentage of GDP remained below the euro zone average, with the latter standing at 71.6%. Inflation increased to 3.3%.

Within Central and Eastern Europe, economic growth varied in 2011 from 4.9% in Ukraine to 0.3% in Croatia. As growth in the region was driven mainly by the export sector, countries with open economies, such as the Czech Republic, Slovakia, or even Hungary, were able to benefit to a greater extent from the performance of Germany. Romania's relatively closed economy exited its two-year recession mainly due to the excellent performance of the agricultural sector. Croatia's economic recovery remained fragile due to weak domestic demand. Nevertheless, with unemployment in the region remaining at relatively high levels, domestic demand continued to be subdued and consumer prices grew only modestly. Some of the currencies came under intense downward pressure due to a combination of contagion from the euro area and questionable policymaking. This was most pronounced in Hungary, where the forint weakened significantly versus the euro and Swiss franc and thus caused difficulties for households with foreign currency debt.

PERFORMANCE IN 2011

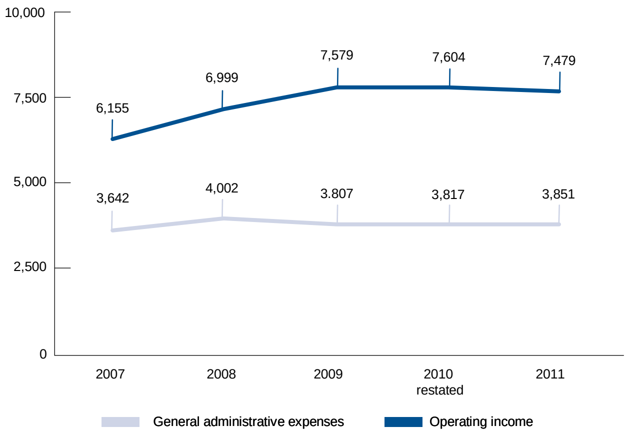
Acquisitions and disposals in Erste Group in 2011 did not have any significant impact and therefore no effects on the rates of changes stated below. Details are provided in the notes to the consolidated financial statements.

Overview

A slight decline in operating income and a moderate rise in operating expenses caused the **operating result** to decrease by 4.2% to EUR 3,627.6 million in the financial year 2011 from EUR 3,786.8 million in the financial year 2010.

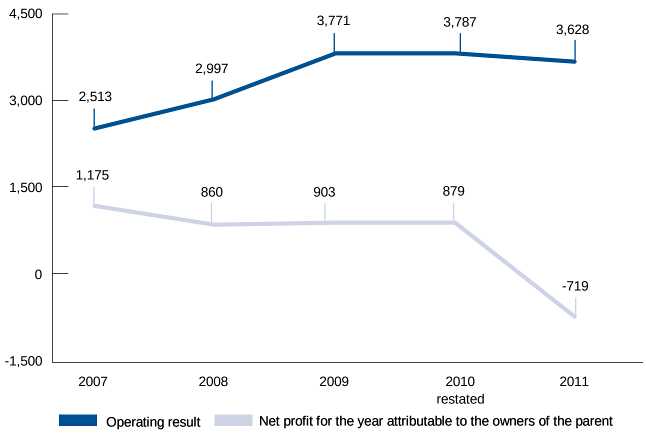
Operating income totalled EUR 7,478.5 million in 2011 (2010: EUR 7,603.6 million). An increase in net interest income (+2.4% to EUR 5,569.0 million) offset the decline in net fee and commission income (-3.0% to EUR 1,787.2 million) but not the drop in the net trading result (-62.0% to EUR 122.3 million). **General administrative expenses** were up 0.9% to EUR 3,850.9 million (2010: EUR 3,816.8 million). This resulted in a **cost/income ratio** of 51.5% (2010: 50.2%).

Operating income and operating expenses in EUR million



Net loss after minorities for 2011 amounted to EUR 718.9 million. 2011 was an exceptional year due to extraordinary effects, including especially goodwill write-downs and extraordinary risk provisions. In the previous year, Erste Group had posted an annual profit of EUR 878.7 million.

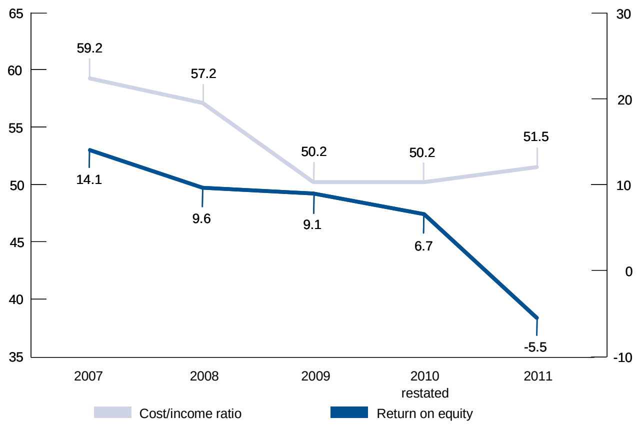
Operating result and net profit for the year attributable to the owners of the company in EUR million



Cash return on equity, i.e. return on equity adjusted for non-cash expenses such as goodwill impairment and straight-line amortisation of customer relationships, was 2.3% for 2011 (reported ROE:-5.5%) versus 7.0% for 2010 (reported ROE: 6.7%).

In the financial year 2011, **cash earnings per share** amounted to EUR 0.42 (reported EPS: EUR -2.28) versus cash earnings per share of EUR 2.17 in 2010 (reported EPS: EUR 1.97).

Key profitability ratios in %



Total assets, at EUR 210.0 billion, were up 2.1% on year-end 2010. On the liability side, this was due to growth in customer deposits and interbank transactions. On the asset side, it reflected a rise in loans and advances to customers and in securities held in the available-for-sale and held-to-maturity portfolios.

The **solvency ratio** improved to 14.4% at 31 December 2011 (year-end 2010: 13.5%), which was attributable to the reduction of risk-weighted assets by 4.8% from EUR 119.8 billion to EUR 114.0 billion. Therefore, it remained comfortably above the statutory minimum requirement of 8.0%. The **tier 1 ratio** in relation to total risk was 10.4% at 31 December 2011 (versus 10.2% at year-end 2010).

Dividend

At the annual general shareholders' meeting, the management board will propose for the fiscal year 2011 not to pay a dividend to shareholders (prior year: EUR 0.70) and to pay the dividend of 8% on the nominal value to the holders of participation capital.

Outlook

Most of Erste Group's core markets are expected to post economic growth in 2012, albeit on a lower level than in 2011 – in line with the weakening outlook for the euro zone in the second half of 2011. A mild negative performance is forecast for Hungary and Croatia only.

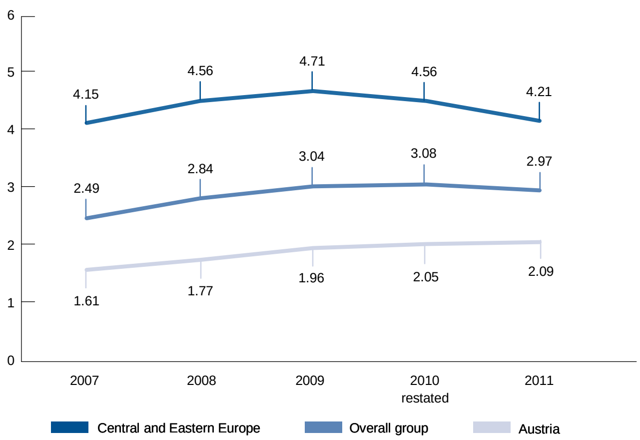
Against this backdrop and despite the reduction of non-core assets, Erste Group expects a slightly rising operating income as well as an improving cost/income ratio supported by unchanged operating expenses and selective loan growth in its core markets in 2012. Risk costs should decrease as extraordinary effects such as the EUR 450 million one-off provisions in Hungary are not expected to recur. Erste Group expects timely and sustainable compliance with the 9% capital requirement set by the European Banking Authority.

ANALYSIS OF PERFORMANCE

Net interest income

Net interest income rose by 2.4% from EUR 5,439.2 million in 2010 to EUR 5,569.0 million in the financial year 2011. This was due to currency changes and to the shift of interest income from trading assets, which is now included in net interest income rather than, as formerly, in the net trading result. Accordingly, trading assets were also included in calculating interest-bearing assets. This change was partly responsible for the contraction of the net interest margin (net interest income as a percentage of average interest-bearing assets) in the financial year 2011 from 3.08% to 2.97%.

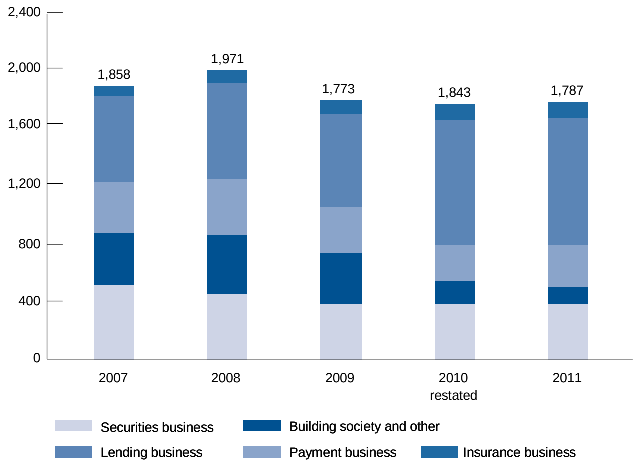
Net interest margin in %



Net fee and commission income

Net fee and commission income declined by 3.0% in the financial year 2011, from EUR 1,842.5 million to EUR 1,787.2 million. This development was mostly due to declines in the securities business (primarily in Austria) as well as in building society brokerage and investment banking. The rising income from payment transfers was caused in large part to the Czech and Croatian subsidiaries (increase in card transactions). The increase in lending business was exclusively attributable to technical effects – on the one hand, the basis of comparison was distorted by loan sales in Romania in 2010 and on the other there was a wider scope of consolidation.

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



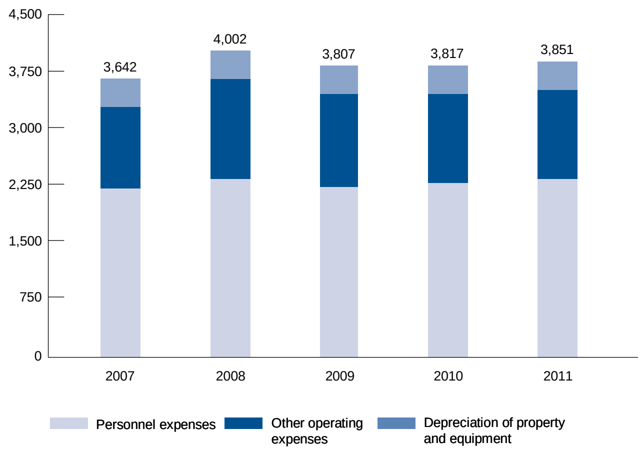
Net trading result

The decline in the net trading result by 62.0% from EUR 321.9 million in 2010 to EUR 122.3 million in the financial year 2011 largely resulted from changes in the fair value of the CDS portfolio of the International Business unit, which was closed out almost completely in the fourth quarter and had an impact of EUR -182.6 million in the financial year 2011 (2010: EUR -134.3 million). Further reasons for the drop were declines in foreign exchange trading and the shift of interest income from trading assets, which is now reported in net interest income rather than, as formerly, in the net trading result.

General administrative expenses

General administrative expenses rose by 0.9% from EUR 3,816.8 million to EUR 3,850.9 million (currency-adjusted: +0.6%).

General administrative expenses, structure and trend, in EUR million

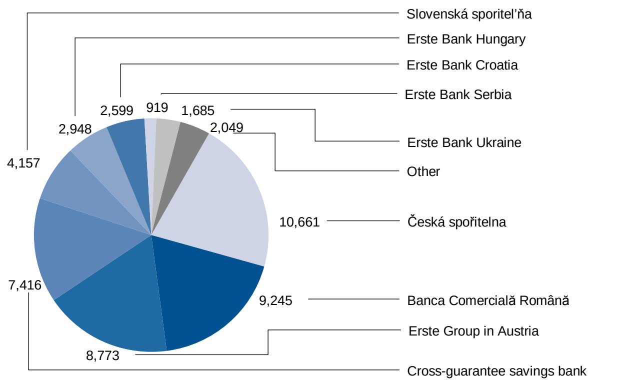


Personnel expenses were up 2.6% (currency-adjusted: +2.4%) from EUR 2,263.8 million to EUR 2,323.7 million. This increase was partly due to severance payments in the Czech Republic, provisions for severance payments in Hungary and Romania, and the integration of Informations-Technologie Austria GmbH (previously not a consolidated subsidiary) into s IT Solutions AT as of 1 July 2010. The latter had a positive effect on **other administrative expenses**, which declined by 1.2% (currency-adjusted: 1.6%) from EUR 1,165.9 million to EUR 1,152.4 million in 2011. Cost reductions were achieved mainly in IT.

The **headcount**, at 50,452 employees, was up 0.4% on year-end 2010. The increase in Austria was mainly due to the expanded scope of consolidation. In Romania it was a consequence of the permanent employment of formerly leased personnel.

Depreciation declined by 3.2% in 2011 (currency-adjusted: -3.6%) versus the financial year 2010, from EUR 387.1 million to EUR 374.8 million.

Headcount at 31 December 2011



Operating result

Due to the weak net trading result, **operating income** declined by 1.6% percent in 2011, totaling EUR 7,478.5 million (2010: EUR 7,603.6 million), while **general administrative expenses** were up moderately by 0.9%, from EUR 3,816.8 million to EUR 3,850.9 million. This led to a reduction of the **operating result** by 4.2%, from EUR 3,786.8 million to EUR 3,627.6 million.

Risk provisions

Risk provisions (i.e. the balance of the allocation and release of provisions for the lending business together with the costs of direct loan write-offs offset by income received from the recovery of loans already written off) increased by 12.2% versus 2010, from EUR 2,021.0 million to EUR 2,266.9 million. In the financial year 2011, risk costs relative to the average volume of customer loans amounted to 168 basis points (2010: 155 basis points). This increase was attributable to extraordinary provisions in Hungary in the amount of EUR 450.0 million as a consequence to legislation passed by the government permitting the early repayment of foreign-currency loans at non-market rates and to raising the NPL coverage ratio. In Romania, provisions remained elevated, primarily due to a deterioration in the SME portfolio. In all other core countries (Austria, Czech Republic and Slovakia) the trend in risk costs was clearly positive.

Other operating result

Other operating result fell from EUR -439.3 million in 2010 to EUR 1,589.9 million in 2011. This was primarily due to the write-down of goodwill in the total amount of EUR 1,064.6 million in 2011. Of this amount, EUR 699.2 million was related to the Romanian, EUR 312.7 million to the Hungarian, and EUR 52.7 million to the Austrian subsidiaries. Other taxes rose from EUR 71.9 million to EUR 163.5 million, which was largely a consequence of banking taxes. In Austria, the banking tax was introduced in 2011 and amounted to EUR 132.1 million. In 2011, Hungary permitted netting of the banking tax against losses resulting from the early repayment of foreign-currency loans on preferential terms (2010: EUR 49.8 million). Expenses for impairments rose from

EUR 77.9 million to EUR 84.3 million, due primarily to write-downs on assets accepted as collateral in Hungary.

Also included in this line item are the straight-line amortisation of intangible assets (i.e. customer relationships) in the amount of EUR 69.0 million (2010: EUR 69.5 million) as well as deposit insurance contributions totalling EUR 87.2 million (2010: EUR 66.2 million).

Result from financial instruments

The overall result from all categories of financial instruments deteriorated from EUR -2.3 million in the financial year 2010 to EUR -93.0 million in 2011. This was mainly attributable to impairments and losses on the sale of Greek bonds in the available-for-sale and held-to-maturity portfolios in the amount of EUR 59.5 million (thereof EUR 23.5 million were attributable to the savings banks).

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

In the financial year 2011, the **pre-tax loss for the year** amounted to EUR 322.2 million; in 2010 the Erste Group had posted a pre-tax profit of EUR 1,324.2 million.

In 2011, **net loss after minorities** amounted to EUR 718.9 million versus a profit of EUR 878.7 million in the financial year 2010.

Tax situation

Pursuant to section 9 of the Austrian Corporate Tax Act ("KStG"), Erste Group Bank AG and its main domestic subsidiaries constitute a tax group. Due to the high proportion of tax-exempt income – particularly income from participating interests – and tax payments for the permanent establishments abroad, no Austrian corporate income tax was payable in fiscal year 2011. The current tax loss carried forward increased in 2011.

Tax on profit mainly comprised expenses from foreign capital gains and other income-related taxes, as well as tax revenue from the tax allocation to subsidiary companies that form a tax group along with Erste Group Bank AG under group taxation regulations.

In 2011 the reported total income tax expense amounted to EUR 240.4 million (2010 restated: EUR 280.9 million).

The tax rate decreased from 21.7% in 2010 to negative in 2011.

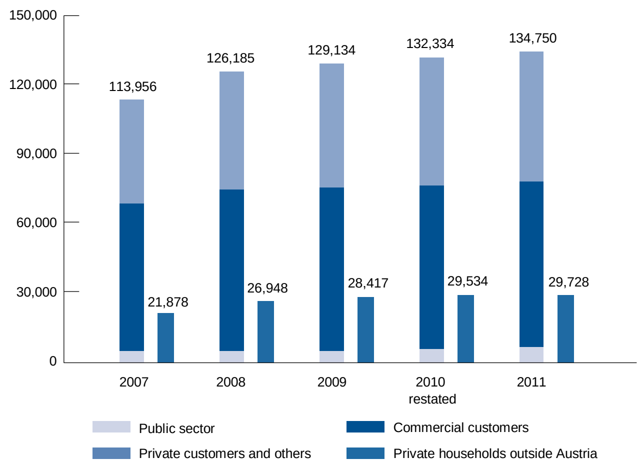
Balance sheet development

Total assets, at EUR 210.0 billion, were up 2.1% on year-end 2010. On the liability side, this was due to growth in customer deposits and interbank transactions. On the asset side, it reflected a rise in loans and advances to customers and in securities held in the available-for-sale and held-to-maturity portfolios.

At EUR 7.6 billion, **loans and advances to credit institutions** as of 31 December 2011 were 39.4% lower than at year-end 2010 (EUR 12.5 billion). This was largely attributable to a decline in short-term interbank transactions, especially repo transactions with the Czech central bank.

Loans and advances to customers were up 1.8% to EUR 132.3 billion versus EUR 134.8 billion. Growth was recorded mostly in lending to Austrian retail and corporate customers and in the Slovak retail business.

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



Risk provisions increased due to additional allocations from EUR 6.1 billion to EUR 7.0 billion. The NPL ratio (non-performing loans as a percentage of loans to customers) rose to 8.5% as at 31 December 2011 (7.6% as at 31 December 2010). The NPL coverage ratio improved further from 60.0% at year-end 2010 to 61.0%.

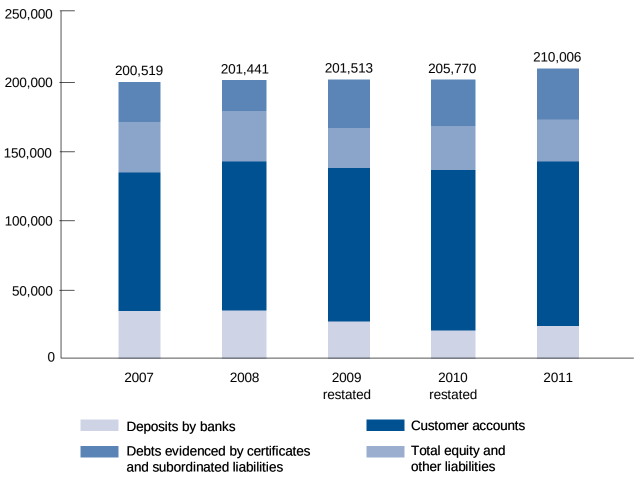
Investment securities held within the various categories of financial assets rose by 10.8% from EUR 34.4 billion at year-end 2010 to EUR 38.1 billion on the back of growth in the available-for sale and held-to-maturity portfolios.

Customer deposits increased by 1.6% (from EUR 117.0 billion to EUR 118.9 billion). This development was primarily owed to growth in deposits from corporate customers in Austria. In the fourth quarter customer deposits decreased due to seasonal fluctuations of deposits by Czech municipalities. The rise in **deposits by banks** is mostly attributable to the use of the ECB's 3-year LTRO (long-term refinancing operation) in the amount of EUR 3.0 billion.

At 113.3%, the **loan-to-deposit ratio** was slightly higher at 31 December 2011 than at 31 December 2010 (113.1%).

As the decline in certificates of deposit was not offset by the rise in mortgage and municipal bonds, **debt securities in issue** declined by 1.6% from EUR 31.3 billion to EUR 30.8 billion.

Balance sheet structure/liabilities and total equity in EUR million

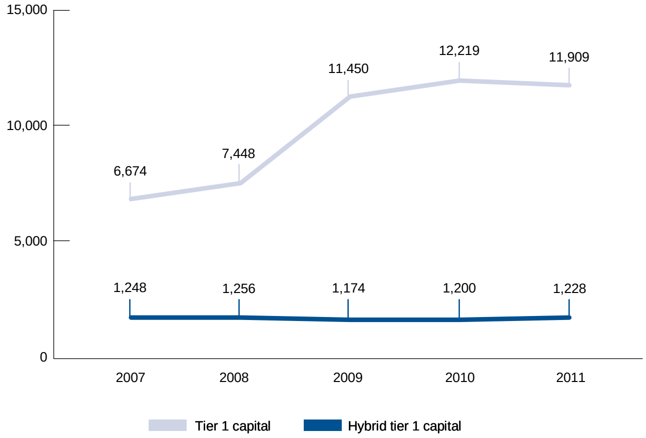


Total risk-weighted assets (RWA) fell by 4.8% to EUR 114.0 billion as at 31 December 2011 (31 December 2010: EUR 119.8 billion). This decline was due to the sale of non-core assets, including the almost complete close-out of the CDS portfolio of the International Business unit, as well as a large number of measures taken to meet the EBA's equity capital requirement of 9% by the end of June 2012.

Total eligible **qualifying capital** of the Erste Group credit institution group, as defined by the Austrian Banking Act, rose from EUR 16.2 billion at year-end 2010 to EUR 16.4 billion as at 31 December 2011. The cover ratio with respect to the statutory minimum requirement at the reporting date (EUR 9.1 billion) was 179.9% (year-end 2010: 169.2%).

The **shareholders' equity** amounted to **EUR 12.0 billion** as of 31 December 2011 (year-end 2010: EUR 13.1 billion). The **tier 1 capital** after the deductions defined in the Austrian Banking Act amounted to EUR 11.9 billion (year-end 2010: EUR 12.2 billion).

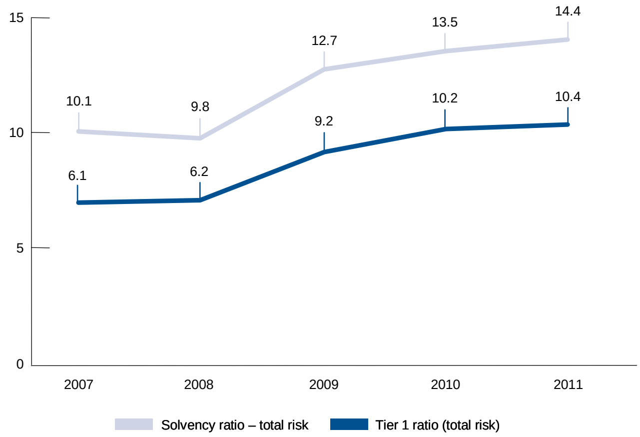
Tier 1 capital under ABA and hybrid tier 1 capital in EUR million



The **tier 1 ratio** including the capital requirements for market and operational risk (total risk) improved to 10.4% (year-end 2010: 10.2%); the **core tier 1 ratio** rose to 9.4% as at 31 December 2011 (year-end 2010: 9.2%). The core tier 1 ratio as defined by the EBA stood at 8.9% as at 31 December 2011.

The **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 Austrian Banking Act) amounted to 14.4% as of 31 December 2011 (year-end 2010: 13.5%), which was well above the statutory minimum requirement of 8.0%.

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



EVENTS AFTER BALANCE SHEET DATE

On 17 February 2012, Erste Group announced its plans to repurchase hybrid capital and certain Tier 2 securities for cash in order to strengthen its capital structure. The potential repurchase of hybrid capital up to an indicative limit of EUR 500 million will take place between 17 February 2012 and 2 March 2012.

RISK MANAGEMENT

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

RESEARCH AND DEVELOPMENT

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

CORPORATE SOCIAL RESPONSIBILITY

Corporate social responsibility has been one of the Bank's fundamental principles since its inception in 1819 and continues to be an integral component of Erste Group's corporate philosophy. Efforts undertaken in this regard have been rewarded again in 2011 as the Erste Group has been included in the newly created STOXX Global ESG Leaders Index, which is composed of the best sustainable companies world-wide.

Customers

Erste Group strives to build and maintain long-term relationships with its customers by offering appropriate and understandable products and advice. The bank is constantly working to improve its service quality and to tailor its product portfolio to the demands and requirements of customers.
In 2011, Erste Bank Oesterreich introduced video and online meeting capabilities for retail clients. Despite the increasing importance of electronic banking, the branch network with its facilities remains a key access point for clients. For blind and partially-sighted customers, Erste Bank Oesterreich and the savings banks installed specially equipped ATMs that provide acoustic instructions. To put even more emphasis on its consumer orientation, Erste Group established the independent unit "Group Customer Experience", combining marketing research, service quality management and complaint handling functions. This setup has increased the bank's ability to understand customer needs and expectations and act upon them immediately in the most effective manner. Customers of Erste Bank Oesterreich and the Austrian savings banks, Slovenská sporiteľňa, Erste Bank Croatia, Erste Bank Serbia, Česká spořitelna, and Erste Bank Hungary ranked these institutions as either the top or second-best bank by local satisfaction ratings.

Erste Group's Austrian fund management organisation was an early mover in anticipating the growing needs and intentions of investors to increasingly emphasise environmental as well as ethical and social aspects in their investment decisions. Erste Sparinvest used these changes as an opportunity to develop the largest variety of ethical-sustainable funds in Austria over the last decade. Assets under management reached EUR 1.5 billion in 2011, an increase of 15% compared to 2010. In 2011, Sparinvest's sustainability specialists managed ten investment funds plus several externally mandated portfolios. Erste Sparinvest subscribes to the UN Principles of Responsible Investment. In 2011, the company decided to prohibit investments into companies active in the field of controversial weapons, such as land mines, for all actively managed mutual fund portfolios as of the beginning of 2012.

In 2011, the business focus of good.bee – a joint undertaking of Erste Group Bank AG and Erste Foundation – remained on the areas of Microfinance and Social Enterprise Finance. Microfinance is about finding financial solutions for individuals and entrepreneurs who lack access to financial services. In addition, local support networks assist in capacity building for social entrepreneurs by helping them to acquire the knowledge and skills they need to become successful in their ventures. Several good.bee initiatives were launched by the local banks of Erste Group in 2011: Erste Bank Serbia and the Serbian National Employment Agency launched a programme to help unemployed young people to set up their own businesses. Erste Bank Croatia supports self-employment by providing investment loans to people and businesses that may have difficulties meeting standard requirements for obtaining loans. Training and mentoring are offered as well. Banca Comercială Română granted several loans to social organisations in 2011 and gathered valuable experience in working with the social sector. Erste Bank Ukraine granted a loan to a medical rehabilitation centre investing in medical equipment. Česká spořitelna launched the pilot project Social Enterprise Finance, which grants loans to social enterprises in the Czech Republic.

Civil Society

The idea of working for the common good was already contained in the founding concept of the savings bank 192 years ago. Today, the MehrWERT sponsoring programme of Erste Group is a visible representation of its commitment to society.

In 2011, Erste Group sponsored again, among other projects, the annual Eastern Europe campaign of Caritas to help children in the poorest countries of Europe, the appeal for donations to fight poverty in Austria, and the Coffee to Help campaign. Erste Bank Oesterreich regularly supports special projects of Caritas Vienna, youngcaritas.at, and Caritas Austria. Since 2003, a number of Erste Group entities have been cooperating with Österreichisches Hilfswerk. In 2011, Erste Bank Oesterreich, s Bausparkasse and the savings banks provided again assistance to the Hilfswerk initiative KINDER FÖRDERN. ELTERN HELFEN (Promoting Children, Helping Parents). Erste Bank Oesterreich continued to support the association lobby.16 in 2011, which works to protect the right to education of unaccompanied young refugees and gives them access to education, employment and participation in social life. In the Czech Republic, Česká Spořitelna has been co-operating with Caritas Czech Republic on a number of projects for several years. Erste

Bank Croatia took part in the Step into Life programme, which provides scholarships to young people. Erste Bank Hungary's social activities focused on helping young and socially disadvantaged people and on promoting health issues.

In 2011, Erste Group supported and promoted partnerships between cultural and social institutions intended to develop common ideas and strategies for cultural appreciation programmes. One example is the project Kultur-Transfair, which develops projects designed to inspire interest in culture and facilitate ac-cess to it.
Erste Group continued its wide support of cultural activities in 2011 by sponsoring the Viennale film festival, the VIENNAFAIR art fair, and the Vienna Design Week. Since the 2011/12 season, Erste Bank Oesterreich has been principal sponsor of Jeunesse, an organisation that offers an extensive concert programme covering classical, jazz, world music and new music as well as children's concerts. Erste Bank Hungary is a sponsor of the Palace of Arts centre and in 2011 was awarded the Summa Artium Award for its long-term support of contemporary culture and art. Česká Spořitelna and Slovenská sporiteľňa supported a number of music festivals and Erste Bank Serbia lent its support again in 2011 to talented young musicians through the Klub 27 programme.
Financial literacy initiatives are well aligned with Erste Group's savings bank tradition and were implemented throughout the Group in 2011., The exhibition "Moneten, Kies und Kröten" (Show me the money) initiated by Erste Bank Oesterreich as a sponsor of ZOOM Kindermuseum was on show in Graz in 2011. Local banks operate educational internet portals for various target groups, among them Česká spořitelna's Moneymanie.cz. Erste Bank Croatia and Erste Bank Serbia offer workshops for people who want to improve their financial know-how. Erste Group Ukraine runs a financial education programme for children from low-income families. Slovenská sporiteľňa supported initiatives like Know your money, which teaches pupils how to manage their money.

The bank has supported amateur and professional sporting events in Austria and Central Europe for many decades. Projects are carried out in close cooperation with organisers and hosts of events. Ice hockey, running and tennis are given particular emphasis, as is the promotion of activities for young athletes.

Volunteering programmes comprise a key element within Erste Group's concept of corporate social responsibility. All local subsidiaries of Erste Group encourage their employees to engage in corporate volunteering and support them in these activities. More than 400 employees of Erste Bank Oesterreich and the savings banks work on a volontary basis for Zweite Sparkasse. Česká spořitelna staff provided help to people in need such as elderly and disadvantaged persons or drug addicts, and worked for the protection of the environment.

Staff

In 2011, a variable remuneration policy was implemented that defines performance criteria for determining and paying bonuses. Training of employees remains a high priority for Erste Group. The second class of the Group Leadership Development Programme completed its training modules in 2011 and a new set of trainees participated in the Erste Group Junior Trainee Programme. Erste School of Banking and Finance coordinated group-wide training activities in 2011 again and established three new specialised courses. Healthcare remained a key concern for Erste Group. The focus of activities has been in particular on stress management, burnout prevention, and the early detection of risk factors for cardiovascular diseases. In Austria, 1,200 employees of Erste Bank Oesterreich and Erste Group Bank AG took part in a medical check-up. For its exemplary commitment to managing mental health, Erste Bank Oesterreich was recognised as a "model of good practice" by the European Network for Health Promotion. In 2011, more than 32,000 employees took part in Erste Group's employee engagement survey. Based on staff feedback, improvements are being implemented.

Environment

In 2011, Erste Group started implementing the environmental strategy adopted in the preceding year, initially with a focus on measures in Austria. In 2011, negotiations were started to switch to an electricity provider that supplies electricity from renewable sources; these were successfully finalised at the beginning of 2012. Special emphasis will be put on the reduction of paper consumption at Erste Group. Only FSC or PEFC-certified paper is to be used in the future. A key measure taken in 2011 was the development of ecological criteria for procurement procedures. A catalogue of questions will be used in the future to determine if and to what extent suppliers observe ecological criteria in their production processes. From an environmental point of view 2011 was a successful year: CO2 emission per employee fell again by 9.5% to 1.61 tons. Copy paper consumption per employee was reduced by almost 12% to 37.8 kg per year. As a first step, principles for responsible financing were developed for the energy sector in 2011. Financing is provided only for projects that meet defined environmental and social criteria. Power consumption was reduced substantially. This success was based on in-house activities to raise employee awareness as well as on innovative IT features. Accordingly, a variety of projects were implemented at all Erste Group subsidiaries. This positive trend is driven by a large number of measures including a change to energy-saving technology and optimisation of materials and waste management.

CAPITAL, SHARE, VOTING AND CONTROL RIGHTS

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

As of 31 December 2011, DIE ERSTE österreichische Spar-Casse Privatstiftung, a foundation, held approximately 25% of the shares in Erste Group Bank AG. This makes the foundation the largest shareholder.

Disclosures pursuant to section 243a UGB

Art. 15.4 of the Articles of Association 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 removal 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 with regard to the employee share ownership programmes (MSOP/ESOP).

Art. 19.9 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 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 by 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.

Significant agreements pursuant to section 243 a no. 8 UGB

The following paragraphs list important agreements to which the company is party, 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 recipient 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.

Preferred co-operation between Erste Foundation and Caixabank S.A.

Erste Foundation and Caixabank S.A. (formerly Criteria CaixaCorp) have concluded a Preferred Partnership Agreement (PPA), by which Erste Foundation Criteria gives Caixabank, S.A. ("CaixaBank") the status of a friendly investor and preferred partner for participations. Under this agreement, CaixaBank is authorised to nominate a person for appointment to the Supervisory Board of Erste Group Bank AG. In return, CaixaBank 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 held by CaixaBank. Under the PPA, Erste Foundation undertakes not to grant any rights to third parties that are more favourable than those granted to CaixaBank, except under certain circumstances. Erste Foundation’s and CaixaBank’s voting rights at Erste Group Bank AG remain unaffected by the PPA. The PPA has been approved by the Austrian Takeover Commission.

After a number of transactions that aimed to reorganise "la Caixa" Group, Criteria CaixaCorp changed its name to CaixaBank, S.A. as of 30 June 2011. In the course of these transactions, the former Criteria CaixaCorp acquired the operational banking business of "la Caixa", which now continues to do business indirectly through the newly set up company CaixaBank which is listed on the stock exchange. As a consequence, CaixaBank - with its operational banking business in "la Caixa" - holds the portfolio of bank participations, including the holdings in Erste Group Bank AG. The name change has affected neither the "Preferred Partnership Agreement" nor the ongoing business cooperation.

The agreement in principle of the Haftungsverbund provides for the possibility of early cancellation for good cause. Good cause 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 percent 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.

Additional disclosures pursuant to section 243a no. 7 UGB

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 decision of the Annual General Meeting of 12 May 2011:

(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 purpose. 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 2013.

(2) Subject to approval by the Supervisory Board, the Management Board is entitled to purchase treasury shares pursuant to section 65 par. 1 no. 8 of the Austrian Stock Corporation Act ("AktG"). However, the shares purchased under this authorisation and under Section 65 par. 1 no. 1, 4 and 7 AktG may not exceed 10% percent of the subscribed capital. The market price of each share to be purchased may not be below EUR 2.00 or above EUR 120.00. Upon approval by the Supervisory Board, the shares purchased according to the above can be sold 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 withdraw shares without resolution at the Annual General Meeting. This authorisation is valid for 30 months, i.e. until 11 November 2013.

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

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM FOR THE GROUP FINANCIAL REPORTING PROCEDURES

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

Risks relating to the financial reporting procedures

The main risk in the financial reporting procedures is that errors or deliberate action (fraud) prevent facts from adequately reflecting the company's financial position and performance. This is the case whenever the data provided in the financial statements and notes is essentially inconsistent with the correct figures, i.e. whenever, alone or in aggregate, they are apt to influence the decisions made by the users of financial statements. Such decision may incur serious damage, such as financial loss, the imposition of sanctions by the banking supervisor or reputational harm.

The internal control system (ICS)

To limit these risks, Erste Group has established and operates an extensive internal control system (ICS) to monitor its business activities.
Key components of the ICS include:
(1) Controlling, as a permanent financial/business analysis (e.g. comparison of target and actual data between Accounting and Controlling) and control of the company and/or individual corpo-rate divisions.

(2) Systemic, automatic control systems and measures in the formal procedure and structure, e.g. programmed controls during data processing.

(3) Principles of functional separation and the four-eye principle.

(4) Internal Audit – as a separate organisational unit – is charged with monitoring all corporate divisions in an independent yet proximate manner, particularly with regard to the effectiveness of the components of the internal control system.

The Internal Audit unit is monitored and/or checked by the Management Board, the Audit Committee/Supervisory Board and/or externally by the bank supervisor. In addition, Internal Audit is responsible for auditing and assessing all business activities. The focus of all audit activities is, however, on monitoring the completeness and effectiveness of the internal control system. Internal Audit reports are presented annually to all members of the Management Board, to the Supervisory Board, and to the Audit Committee.

Organisation and supervision

Group Accounting and Group Performance Management are responsible for group reporting and report to Erste Group's CFO. Erste Group issues group policies used for preparation of consolidated financial statements in accordance with IFRS. A summary description of the accounting process is provided in Erste Group' IFRS Accounting Manual. All transactions have to be recorded, posted and accounted for in accordance with the ac-counting and measurement methods set out in this manual. The management of each subsidiary is responsible for the implementation of group policies. Audits are conducted by Internal Audit as well as local audit to review compliance with these group policies.

Reporting is almost fully automated, based on source systems and automated interfaces, and guarantees up-to-date data for controlling, segment reporting, and other analyses. Accounting information is derived from the same data source and is reconciled monthly for reporting purposes. Close collaboration between accounting and controlling permits continual target/actual comparisons for control and reconciliation purposes. Monthly and quarterly reports to the Management Board and the Supervisory Board ensure a regular flow of financial information and monitoring of the internal control system.

Consolidation of group accounts

The data provided by the group entities are checked for plausibility by the organisational units Group Reporting, the IFRS Competence Center, and Group Consolidation. The subsequent consolidation steps are then performed using the consolidation sys-tem (ECCS). Those include consolidation of capital, expense and income consolidation, and debt consolidation. Lastly, possible intra Group gains are eliminated. At the end of the consolidation process, the notes to the financial statements are prepared in accordance with IFRS, the BWG and UGB.

The consolidated financial statements and the group management report are reviewed by the Audit Committee of the Supervisory Board and are also presented to the Supervisory Board for approval. They are published as part of the annual report, on Erste Group's website and in the Official Journal of Wiener Zeitung and finally filed with the Commercial Register.

Vienna, 29 February 2012

The Management Board

Andreas Treichl mp
Chairman

Franz Hochstrasser mp
Vice Chairman

Herbert Juranek mp
Member

Gernot Mittendorfer mp
Member

Manfred Wimmer mp
Member

Segments

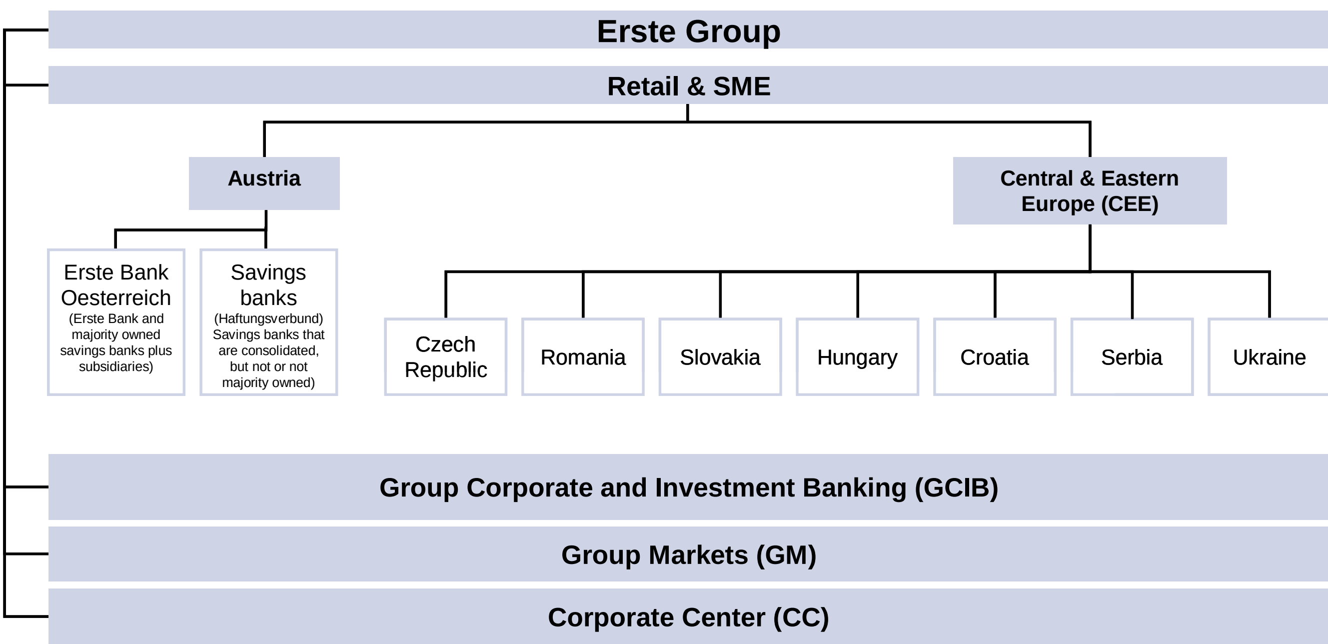
INTRODUCTION

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 are 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.

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 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 Czech Republic, Romania, Slovakia, Hungary, Croatia, Serbia and Ukraine.

AUSTRIA

Economic review

Austria's growth continued to outpace the euro zone average during 2011 with a 3.1% rise in GDP. Exports performed well, and Germany remained the key export market at a share exceeding 30%. Domestic demand also contributed to growth. Services continued to perform well in 2011, with the tourism sector once again supporting the expansion. Measured in terms of GDP per capita at EUR 36,200, Austria remained one of the euro zone's most prosperous countries in 2011. The unemployment rate reflected the expanding economy and declined to 4.2%, one of the lowest in Europe. Despite the downgrade of S&P in January 2012, other rating agencies acknowledged Austria's economic performance coupled with its social and political stability and its highly educated and flexible workforce. As a result, the rating agencies continued to keep Austria among the highest rated countries in Europe.

Fiscal consolidation continued in 2011. Facilitated also by favourable economic developments, the budget deficit narrowed to 3.3%. The fiscal consolidation package for 2011 comprised measures totalling around 0.9% of GDP. More than half of the consolidation effort occurred on the revenue side, with the biggest item remaining the bank levy at 0.2% of GDP. Other measures included the continuation of a tax on airline tickets, a rise in the tax on property sales by private foundations, and an increase in registration fees for less environment-friendly vehicles. The measures on the expenditure side consisted mainly of cuts in family allowances and pension entitlements.

In light of the economic situation and reflecting global trends toward higher energy prices, average consumer prices rose by 3.6%. Real estate prices also increased and contributed to inflation. The European Central Bank maintained its policy of low interest rates, reducing the base rate to 1.00% by the end of 2011.

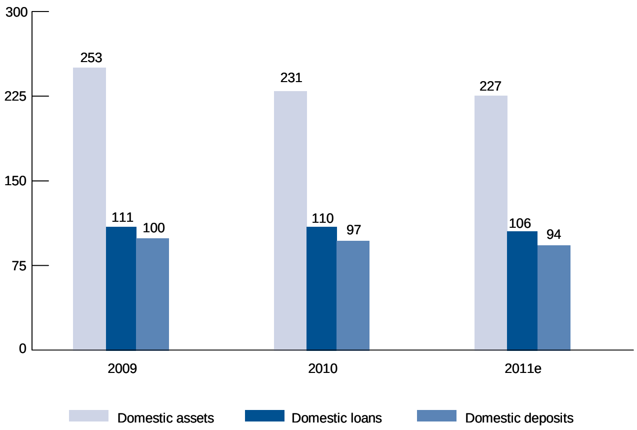
Key economic indicators – Austria	2008	2009	2010	2011e
Population (ave, million)	8.3	8.4	8.4	8.4
GDP (nominal, EUR billion)	282.7	274.8	286.2	305.0
GDP/capita (in EUR thousand)	33.9	32.9	34.1	36.2
Real GDP growth	1.4	-3.8	2.3	3.1
Private consumption growth	0.8	-0.3	2.1	1.0
Exports (share of GDP)	43.0	35.3	39.0	41.3
Imports (share of GDP)	43.2	36.1	40.1	42.0
Unemployment (Eurostat definition)	3.8	4.8	4.4	4.2
Consumer price inflation (ave)	3.2	0.4	1.7	3.6
Short term interest rate (3 months eop)	2.9	0.7	1.0	0.0
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)	4.9	2.7	3.0	2.5
General government balance (share of GDP)	-0.9	-4.1	-4.4	-3.3

Source: Erste Group

Market review

The Austrian banking market, with total assets equivalent to 227% of GDP in 2011, continued to display the characteristics of a developed banking market. 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 and Eastern Europe. Growth rates remained low throughout the year, with customer loans expanding by 2.7% while deposits rose by 3.0%. The banking system's loan-to-deposit ratio stood at 113% at year-end. The special banking tax intended to tackle the country's budget deficit totalled EUR 500 million in 2011.

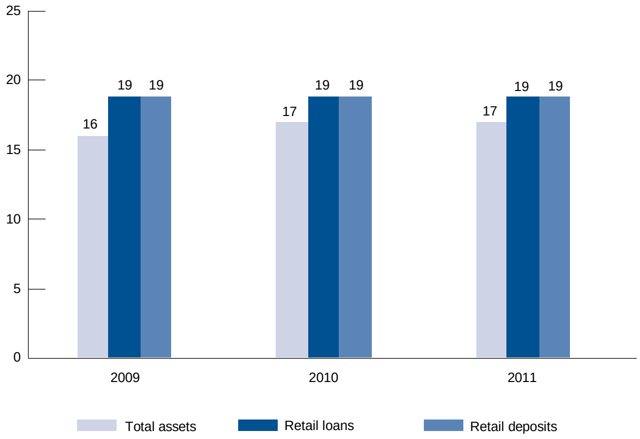
Financial intermediation – Austria (in % of GDP)



Source: Oesterreichische Nationalbank, Erste Group

Capitalisation of the sector's three systematically important banks was twice scrutinised during 2011 by the European Banking Authority. In July, the EBA announced that Erste Group and Raiffeisen Bank International had comfortably passed the test while Oesterreichische Volksbanken AG had not met the 5% requirement for core tier 1 capital. In October, the EBA set new capital rules on the basis of which Austrian banks would need to improve their collective capitalisation by EUR 3.9 billion in order to meet the 9% core tier 1 capital threshold by mid-2012. Financial institutions responded by presenting their plans as to how these rules would be satisfied. Importantly, Austrian banks benefited from their very low exposures to the troubled peripheral European countries. In addition, an important part of Austrian banks' emerging-Europe exposure is in countries with healthy fundamentals, such as the Czech Republic, Slovakia and Poland. Importantly, the Austrian National Bank and the Austrian Financial Market Authority proposed that credit growth should be conditional to the growth of sustainable local refinancing: for new businesses 110% loan to local refinancing (i.e. the loan-to-deposit ratio including local refinancing) should be kept in countries where it exceeds 110%. The main goal is to reduce dependence on parent company funding thus limit potential negative spill-over effects on the Austrian economy.

Market shares – Austria (in %)



Source: Oesterreichische Nationalbank, Erste Group

Erste Bank Oesterreich and the savings banks held onto their very strong market position in the Austrian market. Their combined market share as measured by total assets stood at 17% at year-end 2011. In the retail segment, Erste Bank Oesterreich and the savings banks maintained their shares at about 19%, while in the corporate segment market shares ranged between 16% and 20% depending on customer product.

SAVINGS BANKS

The savings banks segment encompasses 46 Austrian savings banks with 753 branch offices across the country that are consolidated due to their membership in the Haftungsverbund (cross-guarantee system). Erste Bank Oesterreich has no or only minor shareholdings in these institutions. Savings banks that are majority owned by Erste Bank Oesterreich (Salzburger Sparkasse, Tiroler Sparkasse, Sparkasse Hainburg-Bruck-Neusiedl) are included into the Erste Bank Oesterreich segment. The cross-guarantee system covers 45 Austrian savings banks and provides a sound legal basis for collaboration with Erste Bank Oesterreich. In May 2010, Erste Bank Oesterreich and Sparkasse Oberösterreich entered into a separate cross-guarantee agreement.

Business review

Strategy. The savings banks are classic universal banks serving private individuals, free professions, small and medium-sized enterprises as well as large corporate clients, the public sector and non-profit organisations. The Austrian savings banks and Erste Bank Oesterreich are focused on becoming themarket leader in Austria over the medium term. The savings banks' close collaboration in key business areas is reflected in their common corporate identity and their harmonised business and market policies. Customers benefit from the wide variety of financial products and services developed through co-ordinated activities. At the same time, these common production and distribution activities, as well as the shared IT platform and applications (e.g. unified management information and control systems), yield synergies and cost advantages for the savings banks and Erste Bank Oesterreich. Providing outstanding quality and acquiring customers continue to be key goals.

Highlights from 2011

Successful customer acquisition. In 2011, the savings banks gained 75,936 new customers (net). That marked a new record. The total number of customers rose to exceed 3.2 million. Campaigns such as "Kunden werben Kunden" ("clients win clients") contributed significantly to the successful acquisition of new customers. This proved just how much customers appreciate when services are aimed to satisfy their actual needs.

Customer base analysis. A study was made to profile the customer portfolio. The aim was to analyse strengths and weaknesses of the customer allocation based on existing customer segmentation criteria. Areas with potential were highlighted by comparing "right" versus "wrong" customer allocation. From the comparison and benchmarking of the savings banks' customer bases, conclusions were drawn that lead to specific actions. The analysis confirmed that, to optimise long-term customer relationships, it is important to have competent and well-trained relationship managers who are able to provide customers advice meeting their specific needs.

Training supports sales. Key focal points of the savings banks' training activities were how to converse with customers and how to identify their needs within the selling process. "Finance Check" workshops were conducted to practice speaking with clients while using dedicated Finance Check software. This marketing tool benefits customers as well as relationship managers. The customers' financial needs are addressed through a structured approach which enables account managers to offer the most suitable products and services. This type of cross-selling zeroes in on each customer's individual requirements.

Cost projects. Expense-related projects were again implemented in 2011 across the savings banks. Initiatives defined as "optimisation of other administrative expenses" and "personnel benchmarking at savings banks" enabled the participating institutions to compare their expenses in detail with those of their peers. Under these projects, lists of measures were drawn up to tackle weaknesses and to follow best practice examples. As a result, savings banks quickly exploited their optimisation potential.

Financial review

in EUR million	2011	2010
Pre-tax profit/loss	154.7	123.0
Net profit/loss after minority interests	6.0	-5.5
Operating result	487.1	450.8
Cost/income ratio	65.6%	67.4%
Return on equity	2.0%	n.a.
Customer loans	37,604	37,268
Customer deposits	33,555	33,099

At EUR 1,015.6 million, net interest income was EUR 55.0 million, or 5.7%, higher than in the financial year 2010, driven by positive development in margins and the shifting of interest income from trading assets. Net fee and commission income declined by EUR 3.6 million, or 0.9%, from EUR 393.8 million in 2010 to EUR 390.2 million. This was mainly attributable to lower income from lending. The decline in the net trading result from EUR 27.2 million by EUR 15.0 million to EUR 12.2 million in the financial year 2011 was due to the adverse market environment, particularly in the third quarter, as well as to the shifting of interest income from trading assets. At EUR 930.9 million, operating expenses were at the same level as in the previous year. The operating result rose from EUR 450.8 million in the financial year 2010 by EUR 36.3 million, or 8.1%, to EUR 487.1 million.

A decline in the item "Other result" from EUR -24.4 million in the financial year 2010 by EUR 57.6 million to EUR -82.0 million in 2011 was mainly caused by losses on the sale of securities and write-downs on securities not held in the trading portfolio. In the financial year 2011, banking tax was paid in the amount of EUR 6.5 million. Risk provisions decreased from EUR 303.3 million by EUR 52.9 million, or 17.4%, to EUR 250.4 million. Net profit after minorities was EUR 6.0 million (2010: EUR -5.5 million). The cost/income ratio improved to 65.6% in 2011 (2010: 67.4%).

Credit risk

Total credit exposure in the savings bank segment increased in 2011 by 1.7% from EUR 52.0 billion to EUR 52.9 billion. Customer loans grew at a slower 0.9% pace to EUR 37.6 billion. While loans to corporates and private households expanded, those to free professionals and small and medium-sized businesses were down slightly. Generally, lending to free professionals, self-employed persons and small enterprises is a key feature of the business for Austrian savings banks. At nearly one-fifth of overall loans, this customer subsegment is much larger than at Erste Group's subsidiaries in Central and Eastern Europe. This mirrors the structure of the Austrian economy, which has a higher percentage of small and medium-sized businesses than do many other countries. Foreign currency loans in Swiss francs were reduced. At the end of the financial year, these accounted for 19.7% of total loans to customers.

In line with development in the Austrian economy, the quality of the loan portfolio improved slightly over the course of 2011. That continued the positive trend from 2010. The NPL ratio decreased by 0.2 percentage points to 6.9%, and, as in 2010, performing loans significantly migrated to better risk classes. A breakdown by customer segment shows that it was mainly loans to corporates that drove the positive trend, which is a clear indication of recovery in the Austrian economy after the crisis years of 2008 and 2009. NPL coverage improved considerably and was 59.7% at year-end 2011.

ERSTE BANK OESTERREICH

In addition to Erste Bank Oesterreich itself, the segment bearing that name includes the three savings banks in which Erste Bank Oesterreich holds majorities: Salzburger Sparkasse, Tiroler Sparkasse, and Sparkasse Hainburg-Bruck-Neusiedl. Weinviertler Sparkasse was integrated into Erste Bank Oesterreich in autumn 2011. Another component of this segment is Erste Bank's Austrian real estate and mortgage business, which encompass retail 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 financing for retail customers as well as non-profit and commercial developers, is among the key operating entities in this business. Since 2005, s Bausparkasse has also been responsible for the mortgage bond transactions of Erste Bank Oesterreich. The real estate broker s REAL and s Wohnbaubank, a bank specialising in housing loans, also play key roles.

Business review

Strategy. Erste Bank Oesterreich and its three savings banks are universal banks offering clients one-stop shops for all their financing and investment needs. The strategic focus is on strengthening their market position and achieving market leadership jointly with the other savings banks. The banks aim to grow by acquiring new customers and intensifying existing customer relationships. In its core businesses of deposit-taking and lending, Erste Bank Oesterreich is focused on retail customers, corporate customers, and the public sector. Through its multiple-award-winning subsidiaries, the bank offers financial products relating to investments, construction and housing, as well as leasing. In private banking, Erste Bank is one of the market leaders in Austria with assets under management of EUR 28 billion. Together with the savings banks, Erste Bank strives to become Austria's strongest and most profitable banking group. To achieve this goal, the bank is optimising its service and advisory standards and consistently improving the customer experience.

Highlights from 2011

Growth driven by new customers. Erste Bank Oesterreich is pursuing the strategic goal of growing organically by winning new customers. In 2011, approximately 34,000 new customers were acquired. One in four inhabitants of Vienna is already a customer of the bank. Among the efforts contributing to this success was an "action day" organised under the motto "Erste Bank unterwegs" ("Erste Bank out and about") in April 2011. Hundreds of staff members literally were out and about – talking to people in the street, in shops and in businesses – and inviting them to come and meet them at the Erste Bank branches. This campaign publicly demonstrated that Erste Bank's employees are ready to go the extra mile for the customers. The principal aim of this initiative was to highlight that the bank is in touch with how people live and work today – and that its services and financing solutions are state-of-the-art.

Top quality in client relationship management is key to winning new customers. Despite customers' steadily rising expectations and the general public's often critical attitude towards banks, current surveys indicate a high degree of satisfaction among customers of Erste Bank Oesterreich and a willingness to recommend the bank. More than 13,000 customers said in 2011 they would recommend the bank, which is about 80% more than the year before.

Erste Bank improves accessibility. Customers' needs are changing all the time. Clients expect their bank to offer better accessibility and more flexibility than it did a few years ago. Enhancing accessibility to bank services through a variety of channels is one of Erste Bank's business principles. Accordingly, banking and service hours were adjusted during 2011 to meet client needs. All branches in Vienna are now open throughout the day. At the Graben branch, advisory services are offered to clients even on Saturdays from 10 a.m. to 1. p.m. Erste Bank Oesterreich is convinced that individual advice and personal, face-to-face communications will remain crucial to how it provides its services. Among other advantages, individualised attention has a clear positive impact on client retention.

To facilitate mobile financial transactions, Erste Bank Oesterreich offers both device-optimised mobile netbanking for smart phones as well as, since 2011, a netbanking app for iPhone and Windows Phone 7 users. The development of an Android app was started. This innovative product is continuously enhanced with help from a large pool of test users.

New media. Since mid-2010, Erste Bank has been active in social media with a focus on its Facebook presence. Integrated campaigns and numerous activities generated more than 2.5 million ad impressions and 15,000 likes by year-end 2011. Erste Bank targets many of its online activities to young people. The Facebook presence of the youth brand spark7 has become Austria's largest youth community in the financial services sector. In an integrated campaign, students were addressed through a wide diversity of digital channels. A virally distributed youtube video was viewed almost 100,000 times.

Managing CHF loans. Developments in the foreign exchange and financial markets seriously affected Austrian foreign currency borrowers and heightened uncertainty in the market. Demand for advisory meetings increased especially after the Swiss National Bank announced in September 2011 its intentions to enforce a EUR/ CHF minimum exchange rate of 1.20. Through its dedicated "foreign currency loans task force", Erste Bank Oesterreich provides focused advice to clients and assists them if they wish to restructure their foreign currency loans and improve collateral back-up. The aims are to make clients aware of the current situation and the rise in potential risk, explain available options, and help in implementing the decisions taken.

Erste Bank strongly promotes all measures to reduce risk, recommending primarily to transform foreign currency bullet loans into amortising loans and taking a client's individual situation into account when modelling the repayment schedule. Any action that is proposed and promoted is pursued with due regard to legitimate client interests and Erste Bank's responsibility to advise and support its clients.

Euromoney awards. At a London ceremony in July 2011, Euromoney named Erste Bank and the savings banks "Best Bank in Austria". For 20 years, this financial markets magazine has been conferring its Euromoney Awards for Excellence in major financial market and product categories to the most successful financial institutions and leading banks in more than 100 countries. In addition, Erste Group Oesterreich, joined by Erste Bank Hungary and Banca Comercială Română, was again named as the country's leading private banking institution in the Euromoney Private Banking Survey 2011.

Financial review

in EUR million	2011	2010
Pre-tax profit/loss	232.2	219.8
Net profit/loss after minority interests	177.6	166.7
Operating result	397.3	393.7
Cost/income ratio	60.5%	60.6%
Return on equity	16.3%	14.6%
Customer loans	28,199	27,438
Customer deposits	28,774	27,796

The growth in net interest income from EUR 655.3 million in 2010 by EUR 10.7 million, or 1.6%, to EUR 665.9 million in the financial year 2011 was primarily due to an increase in deposits and higher margins. Net fee and commission income declined from EUR 334.0 million by EUR 13.4 million, or 4.0%, to EUR 320.6 million. This was mainly attributable to a subdued securities business that reflected the general market development. The slight rise in operating expenses from EUR 607.0 million by EUR 2.4 million, or 0.4%, to EUR 609.4 million, was primarily due to the inclusion of Intermarket Bank AG in August 2011. Strict cost management by Erste Bank Oesterreich and its subsidiaries kept operating expenses unchanged versus the previous year. The operating result improved from EUR 393.7 million in the financial year 2010 by EUR 3.6 million, or 0.9%, to EUR 397.3 million. The cost/income ratio was almost unchanged at 60.5%. The significant improvement in risk provisions from EUR 148.3 million by EUR 46.9 million, or 31.6%, to EUR 101.4 million reflected the continuously improving risk profile of the retail and SME portfolios.

The decline in the "Other result" item from EUR -25.7 million by EUR 38.0 million to EUR -63.7 million in the financial year 2011 was mainly due to higher write-downs on securities not held for trading (including Greek bonds) as well as the introduction of the banking tax (EUR 7.7 million). Net profit after minorities rose from EUR 166.7 million by EUR 10.9 million, or 6.5% to EUR 177.6 million. Return on equity improved from 14.6% to 16.3%.

Credit risk

The Erste Bank Oesterreich segment's total credit exposure widened during 2011 by 0.4% to EUR 37.7 billion, while customer loans increased by 2.9% from EUR 27.4 billion to EUR 28.2 billion. Erste Bank Oesterreich's share in the total loan portfolio of Erste Group was 20.9% in December 2011, up by 0.2 percentage points versus 2010. A breakdown by customer group shows a gain in lending to the public sector at the expense of loans to retail customers. The share of loans to free professionals, the self-employed and small businesses is smaller than at the savings banks. At year-end 2011 it was unchanged against 2010 at 9.7% of total loans to customers.

While exchange rates were practically unchanged as of the two balance sheet dates – after much volatility through the course of 2011 – the share of Swiss franc loans in the total loan portfolio decreased from 16.0% to 14.4%. This was basically due to two reasons: While on the one hand foreign currency lending to retail customers had been discontinued in autumn 2008, on the other, customers increasingly converted their loans to euro. The percentage of secured loans rose in 2011 by 2.4 percentage points to 69.1%.

Erste Bank Oesterreich's credit portfolio has improved over the past few years even more strongly than has that of the savings banks segment. The NPL ratio based on customer loans dropped from 4.7% at the end of 2009 to 4.1% at year-end 2010 and finally to 3.7% at the close of 2011. Improvements in credit quality were seen in all customer segments, but these were especially strong among the self-employed and small businesses. The public sector and private household borrowers exhibited the best asset quality.

CZECH REPUBLIC

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 Central and Eastern Europe. The bank operates a network of 654 branches and 1,413 ATMs. It serves some 5.2 million retail, SME and large corporate and municipality clients. Česká spořitelna has issued almost 3.2 million bank cards, including roughly 400,000 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 remained one of the most successful and stable in Central and Eastern Europe. The economic recovery continued mainly to be driven by exports in 2011. The open Czech economy clearly benefited from the industry-driven recovery in Germany, the country's main trading partner. The automotive and manufacturing industries continued to contribute crucially to exports. Domestic demand, however, remained sluggish because of cuts in government consumption, wage restraint in the public sector, and a slow recovery in the labour market. Real GDP expanded by 1.6% overall in 2011, while GDP per capita stood at EUR 14,800. The unemployment rate declined slightly in 2011 to 8.5%, with manufacturing being the only sector adding to its workforce.

Fiscal deficit reduction in 2011 relied mostly on additional spending cuts across a broad set of categories. The public sector wage bill was reduced by 10%, and cuts also affected social transfers. Additional savings were achieved on interest costs for the government debt due to favourable borrowing conditions. The Czech Republic maintained its traditionally lower public debt relative to its CEE peers at 43% of GDP. The general government deficit was further reduced to 3.7% of GDP in 2011. The government expressed its determination to push the deficit down to below 3% by 2014. Rating agencies acknowledged the overall performance of the Czech economy, with S&P upgrading the country's long-term sovereign credit rating to AA− from A in August 2011. Moody's and Fitch maintained their A1 and A+ ratings throughout 2011.

At 1.9%, growth in consumer prices averaged close to the Czech National Bank's 2% target. Inflation was driven by higher energy and food prices, as well as by price deregulation. These effects were counterbalanced, however, by low demand inflation. The Czech koruna, supported by the country's strong fundamentals, traded within a relatively narrow range versus the euro compared to some of the other regional currencies. In the second half of the year, however, the koruna came under pressure due to the European debt crisis. The Czech National Bank left its base rate unchanged at 0.75% throughout 2011.

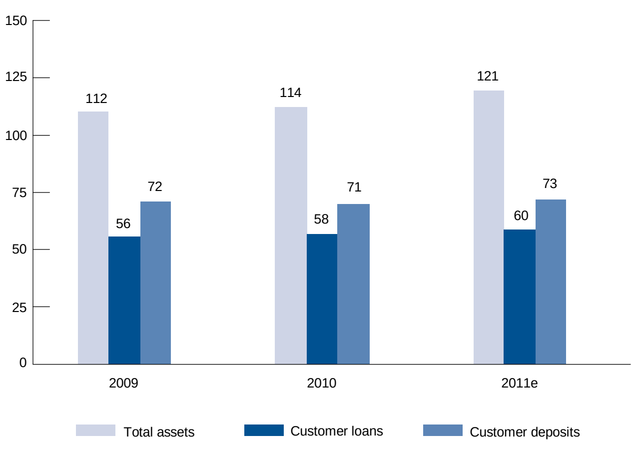
Key economic indicators – Czech Republic	2008	2009	2010	2011e
Population (ave, million)	10.4	10.5	10.5	10.5
GDP (nominal, EUR billion)	154.1	141.5	149.2	155.5
GDP/capita (in EUR thousand)	14.8	13.5	14.2	14.8
Real GDP growth	2.9	-4.5	2.6	1.6
Private consumption growth	3.0	-0.3	0.5	-0.5
Exports (share of GDP)	54.8	50.0	57.2	62.1
Imports (share of GDP)	54.2	47.7	55.9	59.3
Unemployment (Eurostat definition)	5.4	8.1	9.0	8.5
Consumer price inflation (ave)	6.4	1.1	1.5	1.9
Short term interest rate (3 months eop)	3.6	1.5	1.2	1.2
EUR FX rate (ave)	25.0	26.4	25.3	24.6
EUR FX rate (eop)	26.9	26.4	25.0	25.6
Current account balance (share of GDP)	-2.1	-2.4	-3.1	-1.9
General government balance (share of GDP)	-2.2	-5.8	-4.8	-3.7

Source: Erste Group

Market review

In November 2011, the Czech National Bank released the findings from its stress tests. These found that the country's banking system was resilient in the face of widely ranging external risks. Indeed, the Czech banking market remained one of the most liquid and well capitalised in the CEE region. The 82% ratio of loans to deposits across the banking sector as of year-end 2011 provides a case in point. Growth of the banking market reflected lower economic growth in 2011: customer loans and deposits grew by only 6% and 5%, respectively. Foreign exchange-based lending remained insignificant compared to some other CEE countries with higher interest rates. The NPL ratio for the sector decreased to 6.0% and was lower than elsewhere in the CEE region. The attractiveness of the Czech banking market was demonstrated, too, by the entry during 2011 of such new players as Zuno, Air Bank and Equa bank.

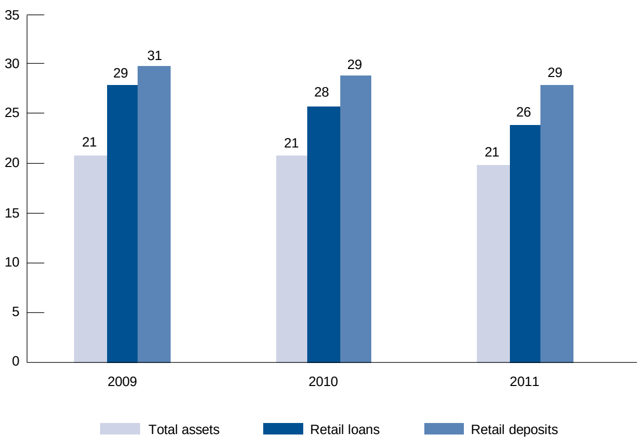
Financial intermediation – Czech Republic (in % of GDP)



Source: Czech National Bank, Erste Group

Česká spořitelna maintained its market leadership positions across all major product categories in 2011. Its retail market shares ranged from 25% to 30% while its share in the corporate segment remained lower at around 20%. Overall, its market share as measured by total assets remained slightly above 20%. Česká spořitelna also retained its number-one position in the payment card market with a market share of 33%.

Market shares – Czech Republic (in %)



Source: Czech National Bank, Erste Group

Business review

Strategy. Česká spořitelna's strategy is directed to growing with the evolving needs of a retail customer base that is becoming wealthier. While catering to the mass market, the bank also offers a broad range of services to corporate and public sector clients. In line with this balanced business model that is focused on the real economy, Česká spořitelna aims to retain its leading market positions in all key product segments while not losing sight of the need to further enhance client satisfaction. The bank aims to achieve sustainable profit growth while maintaining high risk standards.

Highlights from 2011

Contribution to mortgage market recovery. In 2011, Česká spořitelna had quite a significant impact on restoring interest in mortgage loans. It offered new services at attractive terms while taking advantage of the favourable interest rate environment and modestly diminished real estate prices. In 2011, Česká spořitelna provided nearly 18,000 new private mortgages totalling EUR 1.1 billion, an increase of 100% by number of mortgage loans and by volume. The bank's market share increased to 24.3% for private mortgages provided in 2011 (compared to 17.1% in 2010). In most cases the interest rates were fixed for five years. Two-thirds of the mortgage borrowers also contracted insurance to cover monthly payments in case of job loss. The total volume of the retail mortgage loans portfolio rose year on year by 9% to EUR 4.9 billion.

Customised account products. Roughly every fourth inhabitant of the Czech Republic (2.26 million people in all) uses Česká spořitelna's flagship personal account, Osobní učet České spořitelny. The product offers flexible options to meet the requirements of different target groups and remains the most prevalent current account in the Czech Republic. Special account variants are available for clients with higher incomes or sizeable assets, as well as for different age groups. The latter include, for example, secondary school and university students or clients who are about to start their first employment, including graduates from all types of schools, apprenticeships and universities. Since September 2011, clients have been able to open accounts online. The volume of funds deposited at personal accounts grew by 13% to EUR 5.3 billion. Specially designed account packages were made available for the small business and corporate segments. In 2011, options for unsecured company loans and overdrafts were introduced. Clients pay only for those services they actually require and use, and this has proven to have a positive impact on customer satisfaction.

Front-runner in electronic banking. Česká spořitelna maintains its leading position in electronic banking. During 2011, the bank launched multiple new functions for its electronic banking products SERVIS 24 (for retail customers) and BUSINESS 24 (for corporate customers). The total number of users has already crossed the threshold of 1.4 million. In autumn 2011, Česká spořitelna and VISA Europe card association jointly launched a card payment innovation in contactless payment technology. Česká spořitelna's contactless payment cards offer dual-functionality, so clients may use them for both contact and contactless payments.

Pension solutions. Česká spořitelna offers various pension fund products to its clients to provide additional income and thereby maintain adequate living standards during their retirement. Several schemes take into consideration potential changes in the client's financial situation and provide possibilities for adjustments. By the end of the year, the number of Česká spořitelna's pension fund customers totalled approximately 930,000. That corresponded to second place in the Czech Republic's supplementary pension insurance market.

Supporting Czech exports. In co-operation with Czech Export Bank, Česká spořitelna launched a programme to provide working capital loans for subcontractors to exporters. This new instrument is strategically designed to stimulate Czech economic growth, boost employment and competitiveness of small and medium-sized enterprises, and support the Czech export industry. The TOP EXPORT scheme is open to SMEs with turnover from CZK 30 million to CZK 1.5 billion. Loans are secured by Czech Export Bank's guarantees. The suppliers benefit from flexible access to financing and a simplified loan approval process.

International and local recognition. As in previous years, Česká spořitelna received a number of local and international awards. It was recognised as "The Bank of the Decade", and for the eighth year in a row was chosen "Most Trusted Bank" in Fincentrum's Bank of the Year 2011 survey. Pavel Kysilka, CEO of Česká spořitelna, was named "Banker of the Year 2011". Česká spořitelna was selected as Company of the Year: Equal Opportunities 2011 in a competition organised by the non-profit organisation Gender Studies. The jury especially appreciated the bank's benefits system and that it designates a person to address equal opportunities at the company. Česká spořitelna also won Euromoney's Private Banking award for 2011, naming it as the best bank in the Czech Republic in providing private banking services.

Financial review

in EUR million	2011	2010
Pre-tax profit/loss	587.9	467.6
Net profit/loss after minority interests	456.3	379.0
Operating result	920.4	916.7
Cost/income ratio	43.7%	43.6%
Return on equity	42.8%	37.0%
Customer loans	17,187	17,486
Customer deposits	24,296	24,576

Net interest income from the Czech retail and SME business was up strongly year on year by EUR 96.1 million, or 8.8% (currency-adjusted: +5.8%), from EUR 1,087.2 million to EUR 1,183.3 million in the financial year 2011. This increase was driven by better margins in the lending business and higher income from the banking book. Net fee and commission income rose from EUR 476.8 million in the financial year 2010 by EUR 19.7 million, or 4.1% (currency-adjusted: +1.2%), to EUR 496.5 million, mainly as a result of higher income from payment transfers and the cards business. Operating expenses were up EUR 4.1 million, or 0.6%, to EUR 713.9 million. Currency-adjusted, operating expenses were reduced by 2.2%, however, as a result of rigorous cost control. The net trading result decreased from the previous year's strong level of EUR 62.5 million by EUR 108.0 million to EUR -45.5 million, which was mainly attributable to the negative development of financial markets, negative market valuations of the pension funds and lower income from foreign exchange trading.

The operating result rose from EUR 916.7 million by EUR 3.7 million, or 0.4%, to EUR 920.4 million; currency-adjusted, it declined by 2.4%. In view of improved economic conditions and stabilisation of the portfolio, risk provisions fell by EUR 155.3 million, or 42.5% (currency-adjusted: -44.1%), from EUR 365.8 million to EUR 210.5 million in 2011. The item "Other result" deteriorated from EUR -83.3 million by EUR 38.7 million, or 46.4% (currency-adjusted: -42.3%), to EUR -122.0 million due to higher write-downs on securities not held for trading and higher deposit insurance contributions. Net profit after minorities rose by EUR 77.3 million, or 20.4% (currency-adjusted: +17.1%), from EUR 379.0 million to EUR 456.3 million. The cost/income ratio was almost unchanged at 43.7%. Return on equity rose to 42.8% (2010: 37.0%).

Credit risk

Total credit exposure in the Czech Republic segment was EUR 30.3 billion at year-end 2011 (2010: EUR 27.6 billion). Customer loans nevertheless declined marginally during the reporting period, by EUR 0.3 billion to EUR 17.2 billion. This was almost entirely due to the 2.9% depreciation of the Czech koruna versus the euro. The decline in lending volume was limited to retail loans. Lending to the public sector and to corporates – including both large corporates and SMEs – remained unchanged and, together, amounted to EUR 7.6 billion at year-end 2011, or 43.9% of the total credit portfolio.

The Czech Republic segment accounted for about 12.8% of consolidated customer loans at year-end 2011. By its loan volume, the Czech Republic is the most important market for Erste Group after Austria. Almost all lending in the Czech Republic is in local currency. At year-end 2011, foreign currency loans accounted for only 4% of total lending. These had been provided exclusively to corporate customers.

Compared to other countries in Central and Eastern Europe, the negative impacts of the global financial and economic crisis were relatively minor in the Czech Republic. This situation in combination with effective credit risk management resulted in an improved loan portfolio during 2011. Although the trend had been still slightly negative through the third quarter of 2011, it then reversed. More recently, the credit quality of loans to retail customers, small businesses as well as corporate clients has improved. The NPL ratio declined from 6.0% to 5.5% in 2011. The NPL coverage ratio of 69.7% changed only marginally versus the 70.0% at year-end 2010.

ROMANIA

The Romania segment includes the retail and SME business of Banca Comercială Română and its subsidiaries. The bank offers a full array of retail and corporate banking services through a network of 667 branches and 48 commercial centres as well as internet and phone banking. It also operates the largest national network of ATMs and POS terminals, respectively numbering more than 2,300 and approximately 18,000 units. Banca Comercială Română is the market leader with total assets of EUR 17.8 billion and 3.7 million customers as of year-end 2011. It is also top ranked in leasing and well positioned in the pension fund and brokerage businesses.

Economic review

The Romanian economy returned to modest growth in 2011, after two years of recession that had characterised 2009 and 2010. Real GDP grew by 2.5% in 2011 while GDP per capita rose to EUR 6,300. As one of the least open economies in the region, and with exports accounting for just one-fourth of the country's GDP, Romania benefited less than other CEE countries from Germany's economic performance. Still, exports proved to be a clear contributor to growth in 2011, albeit with a less pronounced impact in the second half of the year due to a slowdown in external demand. Domestic consumption, on the other hand, did not pick up significantly, as it was held back by still weak household demand and the tough austerity measures adopted in July 2010 in order to contain the fiscal deficit. Excellent agricultural output strongly supported growth, given this sector's relatively high share in the overall economy. Government consumption contributed little to growth in 2011, as it was constrained by fiscal consolidation and reduced public sector employment. The latter trend was counterbalanced by a higher number of employees in the private sector, and the unemployment rate remained broadly stable in 2011 at 7.3%.

Romania continued in its very disciplined fiscal consolidation programme in 2011. After the global financial crisis in 2008, Romania had undergone a painful but highly necessary fiscal consolidation process in the context of a stand-by arrangement with the International Monetary Fund and European Union. This successful cooperation has brought very impressive results, as the general government budget deficit declined substantially in 2011 to 4.8% of GDP. As part of the austerity measures, expenditures were streamlined through a 25% cut in public wages (partly offset by a 15% increase in January 2011), layoff of almost 200,000 public employees, a 15% cut in social allowances, a reduction of public subsidies, and a tightening of eligibility criteria for receiving social benefits. Major reforms aimed at boosting government revenues were a 5 percentage point hike in VAT to 24%, a broadening of the taxation base, and consecutive hikes in taxes on tobacco, energy and alcoholic beverages.

Inflation moderated significantly in 2011 and stayed within the Romanian National Bank's target range of 2–4%. Consumer price inflation was 3.1% at the end of 2011 (average CPI 5.8%), driven mainly by the base effect from the VAT hike a year earlier and easing food prices. Following the inflation rate's decline to its lowest level in 22 years for the third quarter of 2011, the Romanian National Bank cut the base rate to a historic low of 6%. The Romanian leu strengthened versus the euro in the first half of the year, but this trend reversed later in the year.

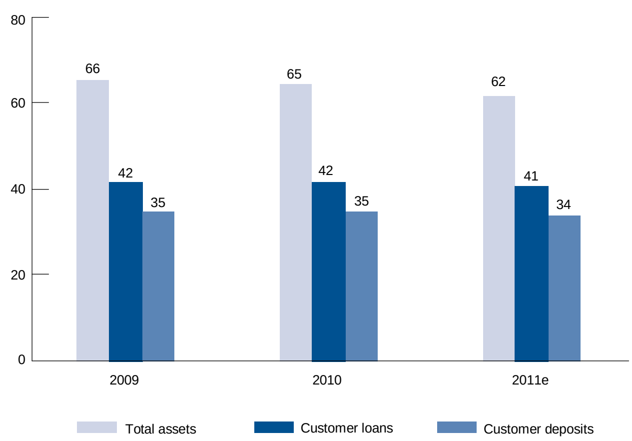
Key economic indicators – Romania	2008	2009	2010	2011e
Population (ave, million)	21.5	21.5	21.5	21.4
GDP (nominal, EUR billion)	139.8	118.2	124.1	134.2
GDP/capita (in EUR thousand)	6.5	5.5	5.8	6.3
Real GDP growth	7.3	-6.6	-1.6	2.5
Private consumption growth	8.9	-9.1	-0.3	0.9
Exports (share of GDP)	24.1	24.6	30.1	33.5
Imports (share of GDP)	40.8	33.0	37.8	40.8
Unemployment (Eurostat definition)	5.8	6.9	7.3	7.3
Consumer price inflation (ave)	7.9	5.6	6.1	5.8
Short term interest rate (3 months eop)	15.5	10.7	6.2	6.1
EUR FX rate (ave)	3.7	4.2	4.2	4.2
EUR FX rate (eop)	4.0	4.2	4.3	4.3
Current account balance (share of GDP)	-11.6	-4.2	-4.4	-4.2
General government balance (share of GDP)	-5.7	-9.0	-6.9	-4.8

Source: Erste Group

Market review

The Romanian banking sector's profitability in 2011 was severely impacted by portfolio deterioration and consequently high provisioning, as well as by pressure on asset margins due to rising competition and lower rates. Importantly, however, the banking market remained liquid and well capitalised in 2011. Customer loans grew by just 5.5% due to very low demand and banks' cautious lending policies. The only loan growth driver in the retail segment was "Prima Casa", a government-guaranteed, euro-based mortgage programme introduced in 2009. The first three phases of Prima Casa had been very successful, together providing EUR 1.6 billion in mortgages. In June 2011, the government introduced a fourth tranche of Prima Casa, with a 50% state guarantee, totalling EUR 770 million. Corporate loans grew at a quicker pace of 8.4%, driven mainly by short-term working capital needs.

Financial intermediation – Romania (in % of GDP)

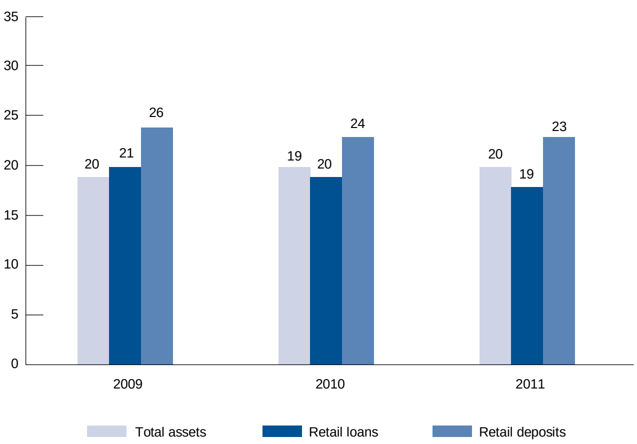


Source: National Bank of Romania, Erste Group

The Romanian National Bank introduced new lending criteria in order to limit risks associated with consumer lending. These new rules included limitations on tenor, debt-to-income ratio, loan-to-value ratio, and collateral coverage. Customer deposits grew at slower pace, of 4.8%, than did loans and remained driven by the retail segment.

Banca Comercială Română held onto its leadership position in almost all major product categories. The new national bank rules on lending had limited impact on the bank, in light of its already conservative approach to foreign currency lending. Overall, Banca Comercială Română had a market share as measured by total assets of 20.1% at the end of 2011.

Market shares – Romania (in %)



Source: National Bank of Romania, Erste Group

Business review

Strategy. Banca Comercială Română's main strategic objective is to maintain its leading market position. Meeting customer needs while providing understandable financial products and high-quality customer services are at the centre of attention. Special emphasis is given to continuously improving risk management as well as efficiency. A customer retention programme, 'win-back' campaigns and proactive complaints monitoring were implemented to support activation of existing customers. In addition, the bank aims to attract new customers with sound creditworthiness. On the product side, Banca Comercială Română concentrates on secured consumer loans in local currency, savings and investments. As economic growth is expected to return in stages – more rapidly in some counties – Banca Comercială Română endeavours especially to boost its presence in the top 10 areas with the highest growth potential.

Highlights from 2011

Positive impact of customer focus. Banca Comercială Română implemented a simplified and more effective process for salary accounts which resulted in growth of its market share for RON sight deposits to 16.2% (up 1.7% year on year). A sales effectiveness project across the entire branch network enabled branch managers and sales people to acquire better understanding of individual retail and SME clients' needs. In combination with improved product offers, this brought greater success in responsible cross-selling. In the face of somewhat aggressive competition, Banca Comercială Română maintained its retail deposit market share (approximately 23%) through implementing enhanced negotiation competences, win-back and sales programmes, as well as differentiated pricing for loyal customers.

Simplification and standardisation. The bank made the most of the low-growth environment by further optimising processes and services, especially emphasising improved customer experience and standardised selling, products and services. In 2011, Banca Comercială Română specifically addressed activities within the life cycle of lending products. Priorities included review of the lending process, automated approval and simplified documentation.

Strengthening risk management processes remained top priority. The bank further improved retail risk assessment. This comprised a variety of measures, such as credit bureau scoring for private individuals, a new scoring system based on customer behaviour, a new credit policy, and a new IT system for the micro segment. On the corporate side, Banca Comercială Română updated the lending guidelines and issued a new pricing and product manual for the sales force. A central loan and collateral documentation solution for SME lending was developed in 2011. Going forward, these measures should have a positive impact on overall asset quality.

Ensuring product competitiveness in a subdued economic environment. Secured lending remained a priority in retail lending. In June 2011, Banca Comercială Română was the first bank starting the new phase of the euro-based Prima Casa programme (benefiting from a 50% state guarantee). The bank boosted its market share from approximately 40% on average for the previous three phases of the programme to about 56%. In its unsecured lending, Banca Comercială Română relied on a risk-based pricing approach and client interest in credit cards picked up slowly. In addition, the bank entered a strategic partnership with Romtelecom-Cosmote. Customers benefited from special voice and/or data offers. A pilot project targeting the student segment was very successful, as some 15,000 students took advantage of the offered account package which included a free Cosmote SIM card. To meet the specific needs of export-oriented corporate customers and importers, Banca Comercială Română launched a highly flexible new loan product that is a multiproduct, multicurrency, revolving credit line.

Advising and participating in EU funded projects. Between 2008 and 2011, Banca Comercială Română advised on 42% of all projects approved for financing at national level (EUR 11.6 billion) and assisted its clients by issuing comfort letters related to those projects. Building on its acknowledged strength, the bank continued to support EU funds absorption. This includes such elements as financial analysis of a respective project, counselling on the project's eligibility for EU funds, and assistance in preparing a business case. In 2011, Banca Comercială Română attracted approximately

EUR 1.3 billion of EU funding to new projects which involved approximately EUR 373 million in co-financing (an increase of 112% compared to 2010). The bank is co financing about 40% of works related to the most important infrastructure project in Romania, the Corridor IV Pan-European motorway.

Financial review

in EUR million	2011	2010
Pre-tax profit/loss	-54.9	24.9
Net profit/loss after minority interests	-22.5	8.6
Operating result	475.3	581.7
Cost/income ratio	44.2%	39.2%
Return on equity	n.a.	1.6%
Customer loans	11,160	11,248
Customer deposits	8,003	7,793

In the financial year 2011, net interest income in the Romanian retail and SME segment decreased by EUR 126.3 million or 15.8% (currency-adjusted: -15.3%) to EUR 672.3 million. This development was mainly due to continuing weakness in consumer credit demand and lower margins in subsidised mortgage lending. Net fee and commission income declined by EUR 4.3 million, or 3.2% (currency-adjusted: -2.5%), from EUR 134.4 million in the financial year 2010 to EUR 130.1 million. The rise in the net trading result from EUR 24.0 million by EUR 25.3 million to EUR 49.3 million resulted from revaluation gains in foreign exchange trading. Operating expenses rose only marginally from EUR 375.2 million by EUR 1.2 million, or 0.3% (currency-adjusted: +1.0%), to EUR 376.4 million.

The operating result decreased from EUR 581.7 million to EUR 475.3 million in the financial year 2011 (-18.3°%; currency-adjusted: -17.7%). While economic conditions remained difficult, risk provisions declined from EUR 506.7 million by EUR 7.4 million, or 1.5% (currency-adjusted: -0.8%) to EUR 499.3 million. The improvement in the item “Other result” from EUR -50.2 million by EUR 19.3 million, or 38.4% (currency-adjusted: +38.1%) to EUR -30.9 million in the financial year 2011 was mainly due to one-off income from the liquidation of the subsidiary Anglo-Romanian Bank Ltd. At EUR -22.5 million, net profit after minorities was EUR 31.1 million lower than the net profit of EUR 8.6 million posted in the previous year. The cost/income ratio rose from 39.2% to 44.2%.

The current earnings development in Romania and a revised economic and business outlook for the banking sector led to extraordinary write-downs of goodwill totalling EUR 699.2 million in the third quarter 2011 (including EUR 6.4 million write-downs of Romanian subsidiaries), which reduced goodwill to EUR 1.1 billion.

Credit risk

Total credit exposure in the Romania segment declined in 2011 from EUR 15.3 billion to EUR 14.7 billion. Loans to customers remained practically unchanged at EUR 11.2 billion, which at year-end 2011 accounted for 8.3% (year-end 2010: 8.5%) of Erste Group’s total customer loans. The stagnation in lending was due primarily to the subdued macroeconomic environment, but more restrictive new lending policies also played a role.

The share of foreign currency loans in the credit portfolio increased slightly from 62.1% to 62.3% and consisted almost entirely of euro loans. The credit standards for loans were tightened further in comparison to 2010. Moreover, efforts to avoid credit defaults were intensified, with a special focus on restructuring loans of private and corporate customers to adjust to the weaker economic situation. Selling minor parts of the NPL portfolio on the secondary market was continued, especially for unsecured consumer loans.

The country’s slow economic recovery caused a continuing deterioration in credit quality despite the countermeasures taken. Some improvement was observed towards year-end, however. The share of the highest risk category declined through 2011 from 46.1% to 42.2% of total customer loans – in the year’s first half by 2.5 percentage points and in the second half by 1.4 percentage points. The NPL ratio rose from 18.0% to 22.7%, with most of the deterioration seen in corporate loans. As in previous years, the trend was especially negative in the subsegment of the self-employed and small businesses. This customer group accounted for 6.9% of the total credit portfolio. The trend in loans to private households was significantly improved, with a decrease in non-performing loans. As risk provisions were increased, reserves were again adequate to cover any credit losses. The NPL coverage ratio was 50.1% at year-end.

SLOVAKIA

The Slovakia segment encompasses the retail and SME business of Slovenská sporiteľňa and its subsidiaries. Slovenská sporiteľňa, 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 leading 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 292 branches and more than 748 ATMs.

Economic review

Backed by its strong fundamentals, Slovakia exhibited one of the most dynamic recoveries of any European Union country in 2011. Among the most open economies in the CEE region, the country was one of the main beneficiaries of Germany’s economic performance. Growth in 2011 was primarily driven by exports of manufactured products such as vehicles, machinery and electrical equipment. By contrast, domestic demand declined in the year. This component of GDP was impacted by a combination of lower household consumption and significant contraction in government spending, both reflecting in part the major fiscal consolidation effort upon which the authorities embarked. Altogether, real GDP grew by 3.3% in 2011 while GDP per capita stood at EUR 12,700 by year-end. The labour market advanced only moderately during 2011, with the unemployment rate improving slightly to 13.3% by the end of the year.

The public deficit as a percentage of GDP stood at 45% in 2011. The government made rapid progress in lowering the fiscal deficit in 2011 by implementing a substantial consolidation effort, which in 2011 alone amounted to 2.5% of GDP. These measures put more emphasis on the expenditure than revenue side. Spending measures featured a cut in the public sector wage bill as well as a boost in the efficiency of health care. Revenue-side measures consisted of a temporary VAT-rate hike to 20%, a broadening of the base for personal income tax and social contributions, and higher excise taxes on tobacco and alcohol. As a result of these measures, the government deficit improved to 5.5% of GDP in 2011.

After two years of historically low price increases below 2%, inflation in 2011 accelerated markedly due to an increase in the regulated prices of gas, heat and electricity for households, the hike in the VAT rate, the rise in excise taxes, and higher food prices. Altogether, average consumer prices in 2011 increased by 3.9%. Having adopted the euro in 2009, Slovakia continued to benefit from low euro zone interest rates.

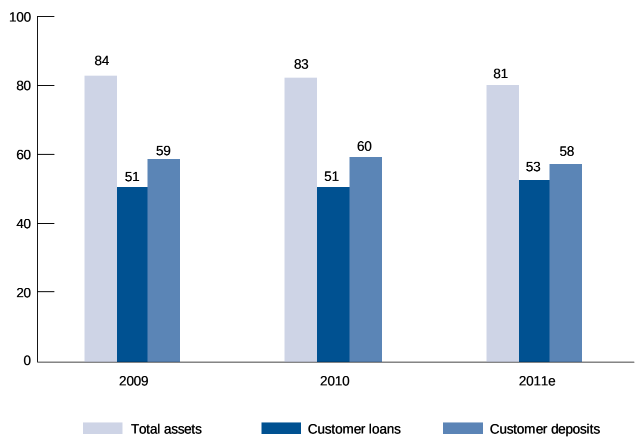
Key economic indicators – Slovakia	2008	2009	2010	2011e
Population (ave, million)	5.4	5.4	5.4	5.4
GDP (nominal, EUR billion)	64.4	62.9	65.9	69.2
GDP/capita (in EUR thousand)	11.9	11.6	12.1	12.7
Real GDP growth	5.9	-4.9	4.2	3.3
Private consumption growth	6.1	0.2	-0.3	-0.5
Exports (share of GDP)	74.0	63.2	73.3	81.6
Imports (share of GDP)	75.1	61.6	72.1	78.0
Unemployment (Eurostat definition)	9.6	12.1	14.4	13.3
Consumer price inflation (ave)	4.6	1.6	1.0	3.9
Short term interest rate (3 months eop)	3.0	0.7	1.0	1.4
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)	-6.6	-3.6	-3.3	-1.1
General government balance (share of GDP)	-2.1	-8.0	-7.7	-5.5

Source: Erste Group

Market review

The positive macroeconomic environment continued to impact favourably upon Slovakia's banking market.

Financial intermediation – Slovakia (in % of GDP)

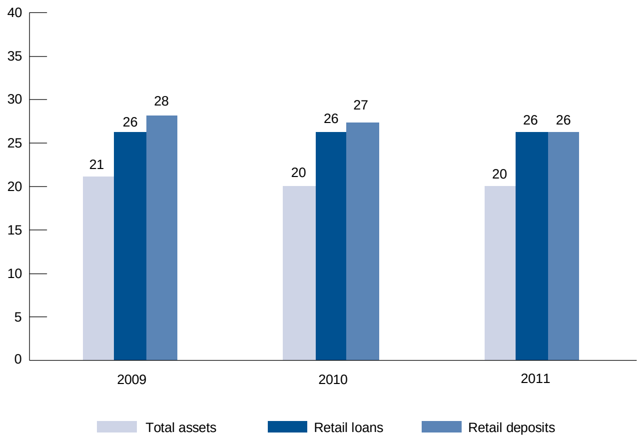


Source: National Bank of Slovakia, Erste Group

Customer loans grew by 8.6% in the year, with the retail segment leading the way on the back of improved consumer confidence. Corporate loan volumes increased by 7.5%. Foreign currency lending remained insignificant. Customer deposits grew less than loans at 1.6%, driven mainly by the retail segment. With its loan-to-deposit ratio of 90%, Slovakia maintained overall one of the most liquid and balanced banking sectors in the region.

In the improved banking market environment, Slovenská sporitel´ňa successfully retained its leading market positions. The bank continued to control one-fifth of the country's banking market as measured by total assets, while it also leaded the market in customer loans and deposits. In the housing loan segment, Slovenská sporitel´ňa's market share remained above 26%. On the deposit side, its market share was significantly lower in the corporate segment, at 10.4%, than in retail, at 25.8%. Slovenská sporitel´ňa benefitted from this deposit structure, as Slovakia introduced a 0.4% special banking tax on non-retail deposits from 2012.

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, its trustworthiness and its distribution network. In addition to the core mass segment, it targets the growing ranks of mass affluent clients. In addition, Slovenská sporiteľňa aims to strengthen its position in corporate banking. Special emphasis is given to delivering added value to its clients by providing appropriate financial products and services. The bank is also committed to enhancing the customer experience by improving accessibility.

Highlights from 2011

Strong deposit base continued to support lending business. Slovenská sporiteľňa maintained its market share in retail loans and retail deposits of 26% each. The bank increased the housing loan volume during 2011 by approximately EUR 450 million. New consumer loans grew by 16% year on year. To secure its market position Slovenská sporiteľňa continued in developing new products and services to meet the changing requirements of its clients. In 2011, the bank introduced a fixed-rate mortgage loan with a maturity of up to 30 years. This is a unique product on the Slovak market, and clients benefit as they are isolated from future changes in interest rate levels.

Focus on initiatives for corporate and public sector customers. The bank continued its efforts to boost its market share in the corporate and public sector segments. During 2011, its market shares in corporate loans and deposits were above 10%. Since the end of 2010, Slovenská sporiteľňa's public sector loans market share more than doubled to 13%. Slovenská sporiteľňa launched a long-term programme aiming to support small and medium-sized enterprises. It includes financing at favourable interest terms and fees, access to electronic banking and competitively priced payment operations as well as an analysis of the clients' insurance contracts.

Successful cost management. As a consequence of efficiency improvements in recent years and economies of scale, Slovenská sporiteľňa's cost/income ratio further improved in 2011. This indicator was one of the lowest among banks on the Slovak banking market. Slovenská sporiteľňa's advisors benefit from simplified and standardised processes. Examples include the new core banking system with a CRM (customer relationship management) module that was implemented in 2011. A back-office centralisation project not only lowered costs, it also relieved branches of some back-office tasks and freed up advisors' time for their sales activities and to foster long-term relationships with clients.

Financial review

in EUR million	2011	2010
Pre-tax profit/loss	215.5	171.5
Net profit/loss after minority interests	173.2	136.5
Operating result	329.2	315.3
Cost/income ratio	40.5%	41.3%
Return on equity	43.2%	31.6%
Customer loans	6,217	5,716
Customer deposits	7,202	7,144

Net interest income in the Slovak retail and SME business rose by EUR 18.9 million, or 4.4%, to EUR 445.7 million in the financial year 2011. This positive development was primarily driven by an increase in mortgage lending as well as by improved income from financial investments. Net fee and commission income improved from EUR 106.6 million by EUR 5.6 million, or 5.3%, to EUR 112.2 million, mainly on the back of higher income from payment transfers. Operating expenses were up marginally by EUR 1.8 million, or 0.8%, from EUR 222.2 million to EUR 224.0 million.

Risk provisions reflected an improvement in the market environment versus the financial year 2010. That benefited above all the retail but also the SME business and led to a reduction of risk provisions from EUR 123.2 million by EUR 49.6 million, or 40.3%, to EUR 73.6 million. The "Other result" item deteriorated due to higher write-downs on real estate as well as on securities in the available-for-sale portfolio from EUR -20.5 million in the financial year 2010 by EUR 19.7 million, or 96.1%, to EUR -40.2 million.

Higher net interest and net fee and commission income, along with significantly lower risk provisions, resulted in a net profit after minorities of EUR 173.2 million, up EUR 36.6 million, or 26.8%, on the previous year. The cost/income ratio improved to 40.5% from 41.3% in the financial year 2010. Return on equity increased from 31.6% to 43.2%.

Credit risk

Total credit exposure in the Slovakia segment amounted to EUR 10.2 billion at year-end 2011, which was an increase of 8.7% versus year-end 2010. Customer loans were up by a similar percentage to EUR 6.2 billion at the end of December 2011 and accounted for 4.6% of Erste Group's total customer loan volume. A breakdown of the portfolio by customer segment shows that the trend from 2010 continued. That is to say that the percentage of higher quality retail loans grew at the expense of corporate loans, which accounted for 26.2% of total loans to customers at year-end 2011 (2010: 30.4%).

Almost all lending was in local currency and, again, no foreign currency loans were granted to private individuals. Collateral coverage improved significantly. Considering the deterioration in credit quality resulting from the financial and economic crisis, new lending was scaled back in certain industries, such as for commercial real estate.

The fact that Slovakia has enjoyed a more dynamic economic development than the EU average also had a positive impact on credit quality. The NPL-ratio remained unchanged at 8.0%. There were differing trends in the various customer segments yet. While defaults on loans to medium-sized and large corporates increased, the NPL ratio for retail loans dropped from 6.8% to 5.5%. In contrast to many other countries of Central and Eastern Europe, the credit quality of small businesses did not worsen in 2011. At year-end, the NPL coverage ratio was exceptionally high at 79.2%.

HUNGARY

The Hungary segment comprises the retail and SME business of Erste Bank Hungary and its subsidiaries. Erste Bank Hungary operates a network of 184 branches and commercial centres plus more than 450 ATMs. It uses nearly 350 post offices as an additional sales channel. Erste Bank Hungary serves approximately 950,000 clients and has market shares of 7% to 14%, varying by product category. It also has significant market positions in securities brokerage and in leasing.

Economic review

Hungary's macroeconomic recovery in 2011 remained moderate by regional standards. Weakness in domestic demand reflected a persistently high unemployment rate of 10.9% and a continuing credit contraction in relation to both households and the corporate sector. Consumption was held back, too, by surging instalment payments on foreign currency loans as the Hungarian forint depreciated, while, contrary to the government's original expectations, the sizeable general cut in the personal income tax to 16% failed to lift domestic demand. Although the export sector put in a favourable performance at the beginning of the year, the slowdown in global, and especially Ger-man, growth along with the sovereign debt crisis prevented the pace of that expansion from being sustained. Overall, Hungary's GDP expanded by 1.6% in 2011 while GDP per capita stood at EUR 10,000 at year-end. One of Hungary's key structural bottlenecks to growth remained its very low labour market participation rate of 56%.

After peaking at 81% of GDP in 2010, the public debt ratio improved in 2011 to 80%, driven mainly by the one-off impact of reforming the private pension scheme. This shift of funds from the private sector to the state had a significant impact on the government budget balance, which showed a surplus of 3.8% in 2011. Additional measures were taken in line with the government's convergence programme, which aims to reduce the budget deficit to below 2% of GDP by 2015, mainly through cuts in unemployment benefits, pharmaceutical subsidies, public transportation, education, and pensions. To this end, a structural reform package was announced in the spring. In November 2011, the government announced a large additional consolidation package. Its most important component was a 2 percentage-point increase in VAT to 27%, the highest in the European Union.

Key economic indicators – Hungary	2008	2009	2010	2011e
Population (ave, million)	10.0	10.0	10.0	10.0
GDP (nominal, EUR billion)	105.7	91.3	97.1	99.8
GDP/capita (in EUR thousand)	10.5	9.1	9.7	10.0
Real GDP growth	0.9	-6.8	1.3	1.6
Private consumption growth	0.6	-6.8	-2.2	-0.3
Exports (share of GDP)	69.5	64.7	73.6	77.7
Imports (share of GDP)	69.7	60.6	67.9	70.6
Unemployment (Eurostat definition)	7.8	10.0	11.2	10.9
Consumer price inflation (ave)	6.1	4.2	4.9	3.9
Short term interest rate (3 months eop)	10.0	6.2	5.9	7.2
EUR FX rate (ave)	251.3	280.6	275.4	279.2
EUR FX rate (eop)	264.8	270.8	278.8	311.1
Current account balance (share of GDP)	-7.3	-0.2	1.1	1.4
General government balance (share of GDP)	-3.7	-4.5	-4.2	3.8

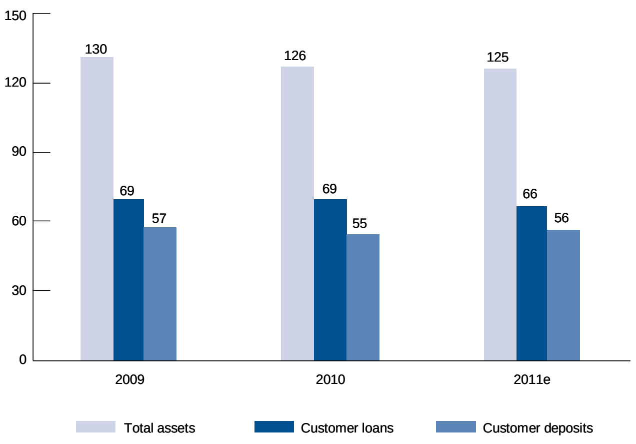
Source: Erste Group

Inflation was driven by the VAT hike, commodity price increases, and the currency's weakness. In the last quarter of 2011, inflation markedly accelerated on the back of excise tax hikes on fuel, alcohol and tobacco. In the dim light of unorthodox economic policies, an unstable regulatory environment, and the weak communication skills, investors' confidence faded in 2011. That contributed to significant weakening of the currency versus the euro and Swiss franc. This, coupled with the inflation development, prompted the National Bank of Hungary to raise the base rate to 7% by the end of the year.

Market review

For Hungary's banking market, 2011 was an extremely difficult year. The country's unbalanced banking market, with a loan-to-deposit ratio of 118%, was severely hit by unpredictable and haphazard legislative steps. The nationalisation of private pension funds affected the sector's operations, but the hardest impact came from the foreign exchange loan conversion scheme in the second half of the year. The sector's losses due to this conversion totalled to around EUR 1 billion in 2011. In addition, Hungary continued to have the highest banking tax in Europe, at 0.53% of the balance sheet.

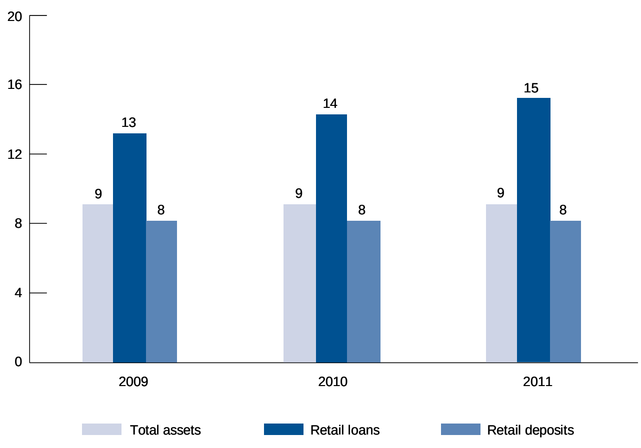
Financial intermediation – Hungary (in % of GDP)



Source: National Bank of Hungary, Erste Group

Moreover, banks' income statements were also impacted by sharp increase in non-performing loans driven by still high unemployment and the weak currency. As a result of all these factors, the Hungarian banking sector became loss making in 2011. Responding to the very unfavourable developments, many financial institutions in Hungary decided to scale down their operations.

Market shares – Hungary (in %)



Source: National Bank of Hungary, Erste Group

As Erste Bank Hungary continued to be the country's second-largest bank in FX mortgage lending, at 22% of total such mortgages, it was among those financial institutions most affected. Due to its record loss, Erste Bank Hungary was recapitalised in the amount of EUR 600 million. In response to these developments, the bank presented an updated strategy which is expected to return the company to profitability by 2014. The bank's overall market positions did not change significantly in 2011: market shares for customer loans and customer deposits stood at 11.6% and 7.5%, respectively.

Business review

Strategy. A changed political and economic situation in Hungary has demanded a complete revision of the strategy, and consequently the business model is going through a fundamental change. The bank is downsizing its operations. It will reduce the number of branches to 141 and make redundant 15% of its workforce. Erste Bank Hungary aims to be a relationship bank, and thus it will continue its efforts to further enhance the customer experience for its retail clients. The corporate business focus will be on a selective corporate client base. The strategic orientation is on local currency business from locally sourced liquidity and on reducing the dependence on parent company funding.

Highlights from 2011

Unorthodox government measures. In 2011, the Hungarian government passed a law enabling retail customers to repay foreign currency loans at fixed rates below the market exchange rates. Approximately 20% of eligible customers opted for the early repayment. In total, EUR 730 million of loans denominated in Swiss francs had been repaid through the end of February 2012. This resulted in a loss of roughly EUR 200 million which was covered by risk provisions created in the third quarter of 2011. As 30% of the losses were deductable from the 2011 banking tax, the banking tax burden for 2011 was reduced to zero.

Establishment of Erste Building Society. In the first years of its operation, Erste Bank Hungary's newly established building society subsidiary will focus on deposit collection by offering its customers 4- to 10-year saving products. Lending activities will begin after the 4-year saving contracts will mature. By the end of 2011, some 5,700 contracts had been signed with a total target savings amount of HUF 18.9 billion. The average monthly saving amount was HUF 13,500.

Brokerage business maintains leading market position. Erste Investment Hungary, the brokerage subsidiary of Erste Bank Hungary, reached a 19% market share in 2011 as measured by volume traded on the Budapest Stock Exchange. Inasmuch as retail customers continued to prefer offline brokerage, the usage of electronic sales channels did not further increase in 2011. The main challenge continued to be the low market turnover on the Budapest Stock Exchange. Moreover, many pension funds disappeared from the market in 2011 due to the elimination of the pension scheme's second pillar.

Financial inclusion initiative. As a part of Erste Group's good.bee programme, a local good.bee strategy was developed to support financial inclusion of the unbanked and underbanked population as well as non-government organisations. The aim is to improve the lives of disadvantaged people in selected social areas that connect directly with their most basic needs: health and social care, employment, education, and housing.

Financial review

in EUR million	2011	2010
Pre-tax profit/loss	-549.8	-7.1
Net profit/loss after minority interests	-566.6	-21.8
Operating result	319.1	305.5
Cost/income ratio	38.6%	39.9%
Return on equity	n.a.	n.a.
Customer loans	7,088	7,763
Customer deposits	3,692	3,887

Net interest income in the Hungarian retail and SME business improved from EUR 387.1 million in the financial year 2010 by EUR 15.6 million, or 4.0% (currency-adjusted: +5.5%), to EUR 402.7 million in the financial year 2011. This was due, however, to higher unwinding effects (which at the same time led to an increase in risk provisions) as well as to currency-related effects. The decline in the net trading result from EUR 23.2 million by EUR 4.1 million, or 17.8% (currency-adjusted: -16.6%), to EUR 19.1 million in the financial year 2011 mainly resulted from declining income from the foreign-currency retail loan book. At EUR 200.5 million, operating expenses were almost unchanged versus the financial year 2010 on a currency-adjusted basis despite additional restructuring provisions in the amount of EUR 11.6 million. The operating result rose from EUR 305.5 million in the previous year by EUR 13.6 million, or 4.4% (currency-adjusted: +5.9%), to EUR 319.1 million. The cost/income ratio improved to 38.6% in the financial year 2011 (2010: 39.9%).

A significant rise in risk provisions by EUR 567.7 million from EUR 244.3 million in the financial year 2010 to EUR 812.0 million was attributable to extraordinary one-time provisions. A provision in the amount of EUR 200.0 million was created to cover expected losses from the early repayment of foreign-currency loans at non-market rates permitted under recent legislation. In addition, in view of the economic outlook and the uncertain political climate in Hungary, additional risk provisions were created to increase the NPL coverage ratio.

The item "Other result" improved by EUR 11.4 million from EUR -68.3 million in the financial year 2010 to EUR -56.9 million. Offsetting of the banking tax against the costs of repayment of foreign-currency loans at non-market rates had a positive effect. On the other hand, the need to recognise higher write-downs on collateral for loans and restructuring costs had a negative impact. Net profit after minorities amounted to EUR -566.6 million (versus a loss of EUR -21.8 million in the previous year). In November 2011, a capital increase was carried out in the amount of EUR 600.0 million.

In view of the current development of earnings and forecasts for the Hungarian economy, the remaining goodwill of EUR 312.7 million was written off in the third quarter 2011 and reported in Group Corporate Center in the "Other result" item.

Credit risk

Total exposure of the Hungary segment declined by approximately 10% to EUR 7.3 billion in 2011. Loans to customers fell at a similar rate, by nearly 9%, to EUR 7.1 billion. As a result, the share of the Hungary segment in Erste Group's total customer loans shrank from 5.8% at year-end 2010 to less than 5.3% at year-end 2011. The distribution between retail and corporate loans remained almost unchanged. Loans to retail customers accounted for almost two-thirds of lending volume at the close of 2011.

The volume decrease related mostly to the option for early repayment of foreign currency loans at non-market exchange rates permitted under recent legislation. Lower demand for loans as well as more restrictive lending policies and an almost 12% depreciation of the Hungarian forint versus the euro accelerated the downward trend. Lending in Swiss francs had been discontinued already in 2009. In 2011, the share of Swiss franc loans as a percentage of total customer loans declined from 55.7% to 51.6%. An even greater weighting was assigned to liquidity in the loan approval process, which basically means cash flow in the case of corporates and disposable income in that of private households.

Not least due to the forint's depreciation, asset quality deteriorated further in 2011 and the default growth rate accelerated in the fourth quarter. At year-end 2011, 71.6% of customer loans were classified in the best two risk categories (year-end 2010: 80.1%). The NPL ratio rose in the course of the year from 12.0% to 21.1%. The trend was especially negative for investment and working capital loans extended to corporates. There were also defaults on loans to local governments. At year-end 2011, NPLs amounted to EUR 18.6 million. As a consequence of extraordinary risk provisions, the NPL coverage ratio rose from 50.0% to 70.3% in 2011.

CROATIA

The Croatia segment comprises the retail and SME business of Erste & Steiermärkische Bank, commonly referred to as Erste Bank Croatia, as well as Erste Bank Montenegro. It serves more than 970,000 clients via a state-of-the-art network of 146 branches and well developed alternative distribution channels, such as internet and mobile communications as well as ATMs. With double-digit market shares in all key product categories, Erste Bank Croatia is one of the major banking institutions in Croatia. In addition to banking services, Erste Bank Croatia also occupies strong market positions in a wide range of other financial services, such as fund management, pension funds, brokerage and leasing.

Economic review

Croatia's economy struggled to recover fully in 2011. After two years of contraction in 2009 and 2010, real GDP showed a marginal gain of 0.3% in 2011. GDP per capita stood at EUR 10,700 at the end of 2011. Domestic demand remained weak throughout the year, impacted by low consumer confidence and a further rise in the unemployment rate to 13.4%. Private consumption stagnated throughout 2011. Exports, which traditionally account for less in Croatia's economy than in other CEE countries, showed an improved performance and grew by 1%. A robust tourist season also supported the economy in 2011 and remained an important source of income. European Union accession negotiations were successfully completed in 2011, and, as a result, the country is expected to join the EU in 2013.

Reflecting weak domestic consumption, the average rise in consumer prices remained at a relatively modest 2.3% in 2011. To manage inflation, the central bank continued its policy of holding the currency within a narrow range versus the euro. Given the country's very high use of the euro, the Croatian National Bank's main objective remained to preserve nominal exchange rate stability. The exchange rate also was supported by the broadly balanced current account, which, as a result of subdued domestic demand and low export growth, measured at just 0.1% of GDP.

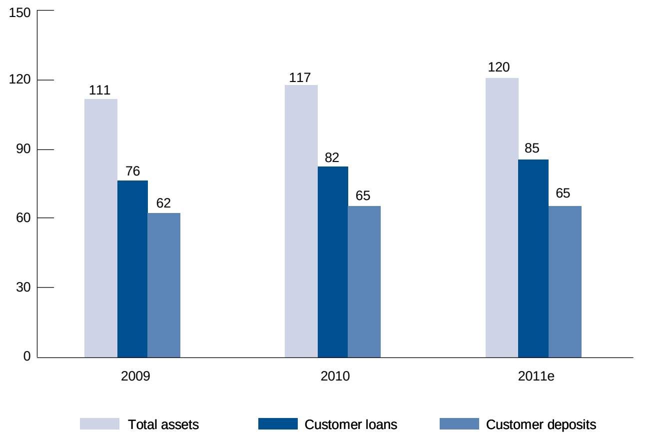
Key economic indicators – Croatia	2008	2009	2010	2011e
Population (ave, million)	4.4	4.4	4.4	4.4
GDP (nominal, EUR billion)	47.8	45.7	46.0	46.1
GDP/capita (in EUR thousand)	10.9	10.4	10.4	10.7
Real GDP growth	2.2	-6.0	-1.2	0.3
Private consumption growth	0.8	-8.5	-0.9	0.2
Exports (share of GDP)	20.5	16.9	19.8	19.5
Imports (share of GDP)	43.1	33.1	32.8	31.6
Unemployment (Eurostat definition)	8.4	9.1	11.8	13.4
Consumer price inflation (ave)	6.1	2.4	1.1	2.3
Short term interest rate (3 months eop)	8.2	3.8	2.5	4.9
EUR FX rate (ave)	7.2	7.3	7.3	7.4
EUR FX rate (eop)	7.3	7.3	7.4	7.5
Current account balance (share of GDP)	-8.8	-5.2	-1.2	0.1
General government balance (share of GDP)	-2.1	-4.5	-5.0	-5.5

Source: Erste Group

Market review

Croatia's banking market in 2011 reflected the macroeconomic development of the country. The market was characterised by mid single digit growth in customer loans and deposits, which increased by 6% and 3%, respectively.

Financial intermediation – Croatia (in % of GDP)

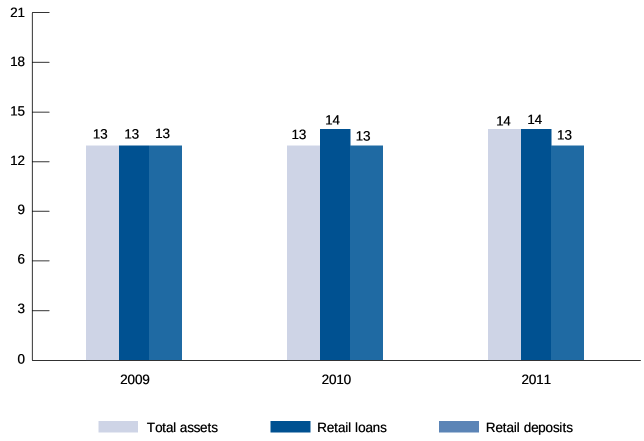


Source: National Bank of Croatia, Erste Group

The lending market was driven by the corporate sector, while household clients largely remained on the sidelines given tight labour market conditions and uncertainty regarding the euro zone debt crisis. The deposit market showed improvement in the retail segment, while the corporate sector continued to exhibit weakness due to high illiquidity and the lack of economic recovery. Overall, the sector's loan- to-deposit ratio stood at 131% at the end of 2011. Profitability of the Croatian banking sector improved compared to 2010, and capital adequacy remained satisfactory. The country's level of financial intermediation remained among the highest, with total banking assets at 120% of GDP.

Erste Bank Croatia performed broadly in line with the overall trends in the country's banking market. Growth in corporate loans was the main driver behind loan expansion, but growth in customer deposits was positively impacted by the retail segment's performance. The bank's loan-to-deposit ratio was 150% at year-end 2011. Erste Bank Croatia remained among the top three players in the market overall, with a total asset market share of 14.2%.

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 position in the medium and long term by providing simple and transparent products and excellent banking services to retail, SME and corporate clients with favourable risk profiles. Efficiency remains a top priority. Special emphasis is put on continuous optimisation and automation of processes and work flows while maintaining high risk management standards. These measures are designed to ensure efficiency in service delivery as well as high service quality and client satisfaction.

Highlights from 2011

Improved convenience for retail clients. Erste Bank Croatia continued to strengthen accessibility and communication with its clients by extending the branch network and further developing its alternative communication channels by opening a virtual branch on Facebook. The competitiveness of the bank's current account, an anchor product for building long-term relationships and cross-selling activities, was further enhanced by up-to-date technology such as a new smartphone app.

Corporate customers drive loan growth. New corporate business was mostly related to large corporate clients, especially state-owned infrastructure companies manifesting greater resilience to the macroeconomic environment. SME clients of Erste Bank Croatia continued to show subdued interest in investing and consequently in new loans during 2011.

Successfully tapping into different funding channels. In July 2011, Erste Bank Croatia issued EUR 80 million of subordinated bonds. Most of these were bought by retail clients. The issue not only strengthened the bank's liquidity and capital position but also supported the development of the Croatian capital market. The bonds benefited from a very good response on the market while there was almost no impact on Erste Bank Croatia's deposit volume.

In addition, Erste Bank Croatia co-operated with multinational financial institutions such as the European Investment Bank. Via financing or risk-sharing facilities, SME and corporate clients − mostly in the energy, agriculture and tourism sectors − received support.

Recognition by public and clients. In February 2011, Erste Bank Croatia was awarded for the fourth time in the last six years the Golden Kuna for being the best bank in the country. In bestowing this honour, the Croatian Chamber of Economy noted that experts and the public especially appreciated the bank's innovativecapacity and flexibility, friendly personnel, high recognition and strong brand presence. In addition, Erste Bank Croatia's ongoing activities to continuously improve service quality were confirmed by the survey's findings of excellent customer satisfaction and loyalty ratings.

Financial review

in EUR million	2011	2010
Pre-tax profit/loss	89.1	81.8
Net profit/loss after minority interests	43.5	36.7
Operating result	208.6	192.6
Cost/income ratio	40.3%	41.9%
Return on equity	17.3%	16.2%
Customer loans	5,917	5,487
Customer deposits	3,984	4,087

In Croatia, net interest income from the retail and SME business improved from EUR 247.9 million in the financial year 2010 by EUR 13.9 million, or 5.6% (currency-adjusted: +7.8%), to EUR 261.8 million. This was primarily attributable to rising lending volumes and improved margins, particularly in the deposit business. Net fee and commission income rose from EUR 74.0 million in the previous year by EUR 2.7 million, or 3.6% (currency-adjusted: +5.7%), to EUR 76.7 million on the back of higher income from the cards business. The net trading result improved from EUR 9.7 million in the financial year 2010 by EUR 1.5 million, or 15.7% (currency-adjusted: +18.1%), to EUR 11.2 million, reflecting higher income from foreign exchange trading. Operating expenses were up – especially in sales – by EUR 2.1 million, or 1.5% (currency-adjusted: +3.6%), from EUR 139.0 million in the financial year 2010 to EUR 141.1 million.

In the financial year 2011, the operating result rose by EUR 16.0 million, or 8.3% (currency-adjusted: +10.5%), from EUR 192.6 million to EUR 208.6 million. This improved the cost/income ratio to 40.3% from 41.9% in the previous year. A need for higher provisioning in the real estate business caused risk provisions to rise from EUR 106.0 million by EUR 3.3 million, or 3.2% (currency-adjusted: +5.3%), to EUR 109.3 million. Net profit after minorities improved from EUR 36.7 million in the financial year 2010 by EUR 6.8 million, or 18.6% (currency-adjusted: +21.0%), to EUR 43.5 million. Return on equity stood at 17.3% (2010: 16.2%).

Credit risk

In the Croatia segment, total exposure rose from EUR 7.8 billion at the close of 2010 by 5.1% to EUR 8.2 billion. Customer loans grew at a slightly faster 7.8% rate to EUR 5.9 billion at year-end 2011. The highest growth rate was seen in loans to municipalities, whose share in the total customer loan portfolio expanded from 6.9% to 11.1%. There was a decline in loans to small businesses, which, as in other CEE segments, play only a minor role in lending within Croatia. The Croatia segment's share of Erste Group's total customer loans has increased continuously in recent years and in 2011 went up from 4.1% to 4.4%.

Due to the overall economic situation after several years of recession, economic growth was still very subdued in 2011, borrowers' payment difficulties have been steadily worsening and lending criteria remained tight. Apart from the real estate industry, this concerned mainly retail customers with lower creditworthiness as well as employees in such riskier sectors as the construction industry. Most loans in Croatia were extended in foreign currency (especially euro), and at year-end 2011 foreign currency loans accounted for almost 80% of total lending volume.

While the quality of customer loans continued to deteriorate in 2011, the pace of that deterioration significantly moderated relative to 2010. Non-performing loans rose from EUR 557 million to EUR 759 million or from 10.2% to 12.8% of the total portfolio. Within the performing loan categories, a shift to lower risk categories was seen. This migration was observed mainly in loans to retail customers, whose default rate nevertheless remained significantly lower than that of companies. NPL coverage was 55.2% at year-end. Considering existing collateral, NPL coverage was therefore sufficient.

SERBIA

The Serbia segment comprises business of Erste Bank Serbia, which serves some 280,000 clients through a network of 66 branches plus nine 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 all of Serbia's major business centres. While Erste Bank Serbia's current market share is some 3% in key product segments, its position is considerably stronger in alternative distribution channels. For example, it has a 4.6% market share as measured by number of bank cards in Serbia (up from 4.3% in 2010).

Economic review

The Serbian economy continued its slow recovery in 2011, with real GDP growing by 1.9% and GDP per capita standing at EUR 4,400. Private consumption remained weak due to poor labour market conditions and deteriorating disposable income in light of persistent inflationary pressures. Investments, on the other hand, supported the economy, mainly those in the automotive sector. The gradual recovery in economic activity proved too feeble to reverse negative labour market trends, so the unemployment rate remained one of the highest in the region (23% at year-end 2011). Serbia achieved major progress toward joining the European Union. In October 2011, the

European Commission issued an opinion on the country's application for EU membership recommending to assign formal candidate status to Serbia. A major step forward in the process was the arrest of the last two remaining fugitives wanted by the International Criminal Tribunal for the Former Yugoslavia in The Hague.

The government's fiscal policies had been anchored by a stand-by arrangement with the International Monetary Fund which expired in April 2011. In September, the IMF approved an 18-month EUR 1.1 billion precautionary follow-on agreement. This provided an important back-up for the country in general and for the exchange rate of the dinar, which performed strongly in 2011. Under the new agreement, the authorities committed to cut spending by between RSD 15 billion and RSD 20 billion in order to cover the deficit opening up due to slower economic growth and a decentralisation law from June 2011 which envisages major transfers from the central government to local municipalities. The new agreement allows a fiscal deficit of up to 4.5% of GDP and stabilises public debt below a 45% threshold.

Despite the favourable exchange rate development, inflation remained one of the main problems for the country's economy. With consumer prices rising on average by 11% in 2011, Serbia's inflation remained significantly above that of its regional peers. Inflationary pressures increased amid rising food and energy prices. Inflation, however, moderated significantly in the second half of the year and the National Bank of Serbia cut the base rates several times to 9.75% by the end of 2011.

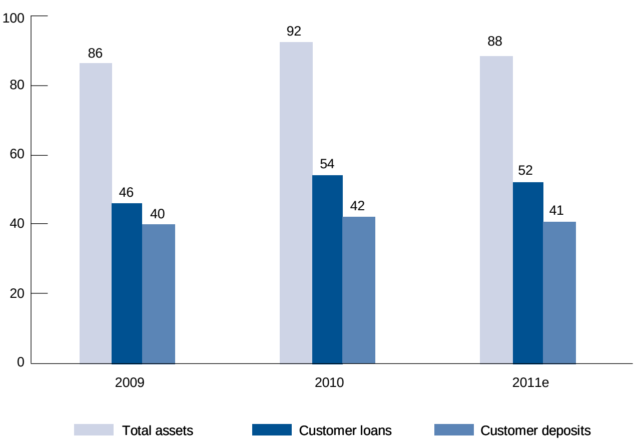
Key economic indicators – Serbia	2008	2009	2010	2011e
Population (ave, million)	7.4	7.4	7.4	7.4
GDP (nominal, EUR billion)	32.7	28.9	29.0	32.5
GDP/capita (in EUR thousand)	4.4	3.9	3.9	4.4
Real GDP growth	3.8	-3.5	1.0	1.9
Private consumption growth	na	na	na	na
Exports (share of GDP)	22.7	20.7	25.5	26.0
Imports (share of GDP)	45.8	38.4	42.0	43.1
Unemployment (Eurostat definition)	13.7	16.1	19.2	23.0
Consumer price inflation (ave)	11.7	8.4	6.1	11.2
Short term interest rate (3 months eop)	18.9	10.8	13.5	11.0
EUR FX rate (ave)	81.4	94.0	103.1	102.0
EUR FX rate (eop)	88.6	95.9	105.5	104.6
Current account balance (share of GDP)	-18.6	-7.2	-7.2	-9.1
General government balance (share of GDP)	-2.6	-4.3	-4.5	-4.5

Source: Erste Group

Market review

The Serbian government continued to support the country's banking market by providing subsidised local currency consumer and housing loans throughout 2011. In order to stem inflationary pressures, the Serbian National Bank raised the short-term foreign currency reserve requirement for banks to 30% from 25% and maintained the long-term FX reserve rate at 25%. For domestic dinar-denominated assets with maturities up to two years, the national bank set a mandatory reserve requirement at 5%. It dropped this requirement for dinar assets with maturities longer than two years. Due in part to these measures, customer loans only grew by 7.3% in 2011. With customer deposits expanding at a very similar 9% pace, the system's loan-to-deposit ratio was held at 125%.

Financial intermediation – Serbia (in % of GDP)



Source: National Bank of Serbia, Erste Group

Erste Bank Serbia remained in 2011 among the country's top 15 banks as measured by total assets. Its market shares for customer loans did not change significantly and remained higher in the retail segment, at 3.3%, compared to the corporate segment, at 2.2%. On the deposit side, Erste Bank Serbia's activities were mainly driven by local currency deposit taking, where its market share increased by 1.3 percentage points to 3.7%. Overall, the bank's market share for customer deposits stood at 2.5% at the end of 2011.

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 be recognised for the quality and efficiency of its services and to position itself as a long-term partner of Serbia's growing middle class. The bank strives to continuously increase market share in the key retail and SME segments. To achieve this, it 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 from 2011

Record net profit in 2011. In profitability terms, 2011 was the most successful year since Erste Bank launched its operations in Serbia. Erste Bank Serbia more than tripled its net profit in 2011 compared to 2010. Its operating performance improved substantially in the year, as revenues were positively impacted by higher loan volume and margin expansion while costs remained well under control. Risk costs increased, which mainly was due to more conservative risk policies.

Balanced business model. Erste Bank Serbia remained one of the most balanced financial institutions in the country with a loan-to-deposit ratio of 100%. The bank was particularly successful during 2011 in attracting local currency deposits. This development underscored that Erste Bank Serbia is one of the most trusted banks in its market. Expanding customer deposits provided a solid basis for loan growth, and both retail and corporate loans achieved double-digit gains in 2011.

Supporting corporate customers. Along with its continuing focus on the SME segment, Erste Bank Serbia not only participated during 2011 in various syndicated loans to the largest enterprises in Serbia but played a leading role in some of them. The European Investment Bank signed an agreement with the bank to provide funds earmarked to support lending to local corporates.

Financial review

in EUR million	2011	2010
Pre-tax profit/loss	5.0	1.4
Net profit/loss after minority interests	3.5	1.0
Operating result	15.8	10.4
Cost/income ratio	68.1%	74.9%
Return on equity	8.6%	2.4%
Customer loans	486	431
Customer deposits	483	455

Net interest income of Erste Bank Serbia increased by EUR 8.9 million, or 32.3% (currency-adjusted: +30.9%), from EUR 27.5 million to EUR 36.4 million in the financial year 2011. This improvement was attributable primarily to a rise in lending volumes and improved margins in the deposit business as well as rising income from short-term investments in local government bonds. Net fee and commission income improved from EUR 11.5 million by EUR 1.5 million, or 13.3% (currency-adjusted: +12.1%), to EUR 13.0 million. Net trading result decreased by EUR 2.3 million due to lower income from foreign exchange trading. At EUR 33.8 million, operating expenses were up EUR 2.8 million, or 8.8% (currency-adjusted: +7.7%), on the financial year 2010. This increase was primarily attributable to rising inflation and severance payments. The cost/income ratio improved to 68.1% (2010: 74.9%).

The operating result rose from EUR 10.4 million in the financial year 2010 by EUR 5.4 million, or 51.9% (currency-adjusted: +50.4%), to EUR 15.8 million. Risk costs increased from EUR 8.2 million by EUR 1.3 million, or 16.5% (currency-adjusted: +15.3%), to EUR 9.5 million. The item "Other result" deteriorated from EUR -0.8 million in the previous year by EUR 0.4 million, or 62.1% (currency-adjusted: -60.4%), to EUR -1.2 million, mainly due to higher deposit insurance contributions. Net profit after minorities rose from EUR 1.0 million by EUR 2.5 million to EUR 3.5 million.

Credit risk

Total exposure in the Serbia segment increased by 26.4% in 2011 from EUR 568 million to EUR 718 million. Customer loans rose by EUR 54 million to EUR 486 million. With its share of just 0.4% in total customer loans, the Serbia segment was still of only minor significance for Erste Group. Viewed by customer segment, the gain in business volume was distributed equally across lending to retail customers and corporates. Compared to other Erste Group subsidiaries in Central and Eastern Europe, the share of corporate loans in the total credit portfolio was above average at 60%.

A majority of loans were still denominated in foreign currency, as their share in the total loan portfolio rose from 72.7% to 76.1% in 2011. Tighter lending criteria boosted the percentage of loans secured by collateral. Asset quality slightly deteriorated in 2011, as the NPL ratio increased by 1.7 percentage points to 11.9%. This was primarily attributable to corporate loans. Defaults on retail loans were higher, as well, but to a much lesser extent. NLP coverage by risk provisions excluding collateral was around 90% at year-end 2011.

UKRAINE

The Ukraine segment encompasses the business of Erste Bank Ukraine, which serves approximately 230,000 customers through a country-wide network of 131 branches. It offers a broad range of standard banking services, including deposit-taking, current accounts, treasury services and loans to its retail and corporate customer base. As Erste Bank Ukraine launched its operations only in 2007, its market shares in 2011 were still small, at about 1% in most product categories. As measured by total assets, the bank ranked 22th.

Economic review

The Ukrainian economy continued its recovery in 2011. Real GDP grew by 4.9%, one of the strongest rates in Central and Eastern Europe, while GDP per capita increased to EUR 2,400. Despite this gain, GDP per capita was still much lower than in other CEE countries. Domestic consumption, which accounts for 70% of GDP, performed well and achieved a double-digit growth rate in 2011. Favourable weather conditions boosted agriculture supporting overall economic growth. Exports, on the other hand, did not contribute to growth as the price of steel, Ukraine's main export product, began to decline in the second half of the year. The labour market also showed an improvement, as the unemployment rate dropped further to 7.8% by the end of 2011. The country retained its traditional regional employment pattern, with the lowest unemployment rate recorded in the industrially more developed eastern part of the country.

Ukraine's dispute with the IMF over natural gas prices did not help the country's business climate, as citizens paid only a fraction of the subsidised the price hike. Meanwhile, a record harvest and high trade barriers for exports sent food prices much lower. As a result, average consumer prices increased by 8% in 2011, the lowest level import gas price while the difference was covered by the state budget. However, the authorities made significant steps toward creating a more transparent business environment. In July, a new law on preventing corruption came into effect. The law aims to structure and strengthen existing legislation in this area. The number of economic activities requiring licensing was further reduced. In addition, pension reform legislation was enacted in September 2011. This included rising the minimum retirement age for women from 55 years of age to 60, capping the maximum pension at 10 times the minimum wage, and extending the required time of employment by 10 years. A new tax code was introduced in 2011 with the intent to streamline the complex tax system. It reduced the corporate income tax rate from 25% to 23% in 2011 and will further cut to 16% by 2014. At the same time, the personal income tax was raised to 17% for 2011.

Inflation came in lower than expected for 2011 and moderated significantly compared to the previous year. Increasing gas prices did not have an impact on consumer prices as the government in nine years. The Ukrainian National Bank kept the hryvna pegged to the US dollar while leaving its base interest rate unchanged at 7.75% throughout 2011.

Key economic indicators – Ukraine	2008	2009	2010	2011e
Population (ave, million)	46.1	46.0	45.7	45.5
GDP (nominal, EUR billion)	123.6	80.7	104.2	106.6
GDP/capita (in EUR thousand)	1.9	1.7	2.2	2.4
Real GDP growth	2.3	-14.8	4.2	4.9
Private consumption growth	12.0	-14.9	7.0	8.0
Exports (share of GDP)	37.1	35.7	37.9	46.2
Imports (share of GDP)	47.4	40.4	44.1	56.1
Unemployment (Eurostat definition)	6.4	8.8	8.1	7.8
Consumer price inflation (ave)	25.2	16.2	9.4	8.0
Short term interest rate (3 months eop)	23.6	18.1	6.5	25.0
EUR FX rate (ave)	7.7	11.3	10.5	11.4
EUR FX rate (eop)	10.7	11.7	10.7	11.2
Current account balance (share of GDP)	-6.7	-1.7	-1.9	-4.7
General government balance (share of GDP)	-1.2	-6.3	-5.5	-3.5

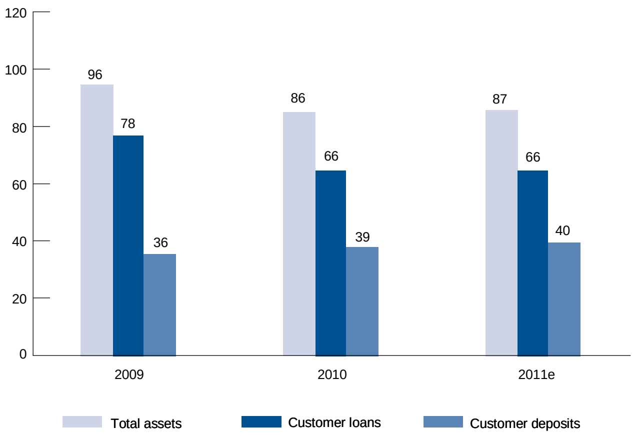
Source: Erste Group

Market review

The year 2011 was the third straight in which Ukraine's banking system had an aggregate bottom-line loss. This was mainly due to the system's poor portfolio quality, as non-performing loans remained above 40% of all customer borrowings, which is one of the highest in the world. In addition, due to deleveraging of the banking system, customer loan growth at 9.8% was weaker than nominal GDP growth. The minimal expansion was driven by corporate loans (up by 15%) while retail loans declined by 4%. Ukrainian- and Russian-owned banks accounted for the vast majority of newly issued loans in 2011, while western banks mainly shrank their loan portfolios. Ukraine's deposit market remained lively in 2011, as banks continued to focus on deposit-taking activities. As a result, customer deposits grew by 15% in 2011. Despite the strong deposit growth, the banking system's loan-to-deposit ratio remained high compared to those of other CEE countries. The structure of the banking market remained stable, albeit highly fragmented. The single largest of the 180 banks in operation accounted for only 12% of total assets.

Erste Bank Ukraine had a pronounced focus on collecting deposits while lending activities were limited and selective in 2011. Erste Bank Ukraine was among the biggest market share gainers on the deposit side, benefiting from its strong brand name and new deposit products. On the lending side, it maintained its market shares throughout the year. The bank's loan-to-deposit ratio also improved significantly but remained well above 100%. Overall, Erste Bank Ukraine's market share as measured by total assets stood at 1.1% at the end of 2011.

Financial intermediation – Ukraine (in % of GDP)



Source: National Bank of Ukraine, Erste Group

Business review

Strategy. Erste Bank Ukraine's main objective is to provide the best service quality while offering transparent and affordable products. Even as the bank is focused upon strengthening its market position in retail and SME banking, it endeavours at the same time to boost operating efficiency. Erste Bank Ukraine aims to enhance its product offer for both retail and corporate customers. In the retail segment, this includes providing a better product range and pursuing a balanced lending policy. Special emphasis is given to achieving sustainable business results by encouraging existing clients to use more services while growing the volumes of deposits and current accounts. In the corporate segment, the bank emphasises financing for energy efficiency projects, the agriculture sector, food and beverage production, as well as engineering companies.

Highlights from 2011

Retail business in challenging economic environment. Erste Bank Ukraine's sound reputation once again resulted in rising customer deposits in 2011, mainly driven by deposits of private individuals and treasury operations of large corporate clients. Retail deposits grew by 27%. Retail loans on the other hand, declined by 22%, as both strict lending criteria and the general economic environment were not supportive to loan growth.

Focus on broadening customer relationships. Erste Bank Ukraine introduced new products, including cash products, and optimised its lending process in line with market demand and Erste Group policies. A customer relationship management project was started, and the bank implemented a new proactive sales approach directed to activating the existing customer base. Erste Bank Ukraine expanded its co-operation with international financial institutions (EIB and EBRD) to support local SMEs in energy and environmental projects, as well as in the trade finance area.

Financial review

in EUR million	2011	2010
Pre-tax profit/loss	-23.6	-37.3
Net profit/loss after minority interests	-23.1	-37.5
Operating result	-14.5	1.6
Cost/income ratio	142.4%	96.7%
Return on equity	n.a.	n.a.
Customer loans	497	486
Customer deposits	190	136

Net interest income of Erste Bank Ukraine declined in the financial year 2011 from EUR 32.9 million by EUR 0.3 million, or 0.8%, to EUR 32.6 million. Currency-adjusted, it was up 4.4%, however. Lower lending volumes were offset by higher interest income from other financial assets. Higher income from payment transfers and insurance brokerage led to an improvement of net fee and commission income by EUR 0.8 million, or 19.2% (currency-adjusted: +25.5%), to EUR 4.9 million. The net trading result declined from EUR 11.7 million by EUR 14.9 million to EUR -3.2 million, which was largely attributable to the shift of interest income from trading assets, which is now included in net interest income.

Operating expenses increased from EUR 47.1 million by EUR 1.7 million, or 3.6% (currency-adjusted: +9.0%), to EUR 48.8 million, driven mainly by higher IT and personnel expenditure. Stabilisation of the portfolio led to a significant reduction of risk provisions by EUR 28.1 million, or 72.5% (currency-adjusted: -71.1%), to EUR 10.7 million. Net loss after minorities declined by EUR 14.4 million, or 38.4% (currency-adjusted: +35.0%), from EUR -37.5 million to EUR -23.1 million.

Credit risk

In the Ukraine segment, total exposure grew by 20.4% from EUR 725 million at year-end 2010 to EUR 873 million at year-end 2011. Loans to customers expanded at a much slower rate, rising only 2.1% to EUR 497 million. This increase was mainly attributable to the Ukrainian hryvnia's appreciation (+2.8% vs. the euro) and, especially, to the higher exchange rate against the US dollar (+3.3% vs. the euro). The dollar was by far the most important lending currency. The rise in credit volume was driven by lending to small businesses. Retail .loans and large corporate loans declined. At year-end 2011, the Ukraine segment accounted for less than 0.4% of Erste Group's overall customer loans.

Despite the return to growth, the economic situation in the country was still challenging and policies for new lending remained very restrictive throughout 2011. In co-operation with customers, efforts again were concentrated on credit restructuring with the aim of adjusting debt service terms as best as possible to the changed economic environment and, thereby, ensuring full repayment of the loans over the medium to long term.

After steadying through the first half of 2011, the negative trend in credit quality continued in the second half of the year. At year-end, the NPL ratio based on customer loans equalled almost one-third of total loans (32.5% vs. 28.3% at year-end 2010). In contrast to other countries in Central and Eastern Europe where Erste Group operates, the default rates on retail loans were higher than for corporate loans. NPL coverage was around 95.3% at year-end 2011.

Group Corporate and Investment Banking (GCIB)

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 (Erste Group Immorent) and global (International Business) business lines. These provide the full range of banking services to large corporate clients, as well as institutional and public sector clients. The division employs 1,250 professionals who combine industry and product expertise with local knowledge, and it offers services in debt financing, equity capital markets, mergers and acquisitions, debt advisory, acquisition finance, infrastructure finance, project finance, syndication, real estate development, lending and leasing, as well as transaction banking. The division co-operates closely with the capital markets, retail and SME business lines.

Business review

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

Deepening relationships with core clients by combining an industry sector coverage approach and broadening the product range to match the clients' needs remains key for Group Large Corporates.

In light of still challenging market conditions, Erste Group Immorent is focused on the existing portfolio. A 'one-stop shop' in its segment, Erste Group Immorent (EGI) covers the full real estate value chain (lending, leasing, investment, project development, construction services) for commercial, residential and municipal projects, as well as the infrastructure business across all countries. In line with Erste Group's strategic focus on retail banking, special emphasis is given to financing of housing projects.

Erste Group's investment banking business line specialises on corporate finance transactions and investment business for private equity funds in CEE. The Equity Capital Markets team advises on and executes initial and secondary public offerings, private placements and accelerated book buildings, and it advises on share buybacks and delistings. Leveraged Finance is focused on providing acquisition finance for leveraged buy-outs by 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 team provides buy- or sell-side advisory to corporate or institutional clients seeking to buy or sell companies in CEE. Services include valuations, bidding strategies and process execution. Staff is based in the Prague and Vienna execution hubs as well as across Erste Group's core markets and in London, Poland and Turkey.

The International Business unit covers all lending and investing activities outside the Group's core markets and is responsible for business development with, as well as credit line management for, banks and non-bank financial institutions. In accordance with Erste Group's strategic business objective to exit non-core activities, the International Business portfolio will be further reduced. International Business will continue to provide line management activities for financial institutions while taking a proactive approach to risk-reduction activities and capital allocation.

Highlights from 2011

Group Large Corporates aims for balanced portfolio growth. The Group Large Corporates (GLC) business line finalised implementation of its sector-based approach, as all locally based client executives are now integrated into the respective industry teams. Clients across the region benefited from special "industry day" events. The aim of the revised structure is to improve the service to clients and thus ensure balanced portfolio growth across countries and sectors while generating stable revenues from intensified client relations.

GLC took a selective approach in lending to core clients as well. Syndicated lending remained important. Erste Group Bank AG acted as mandated lead arranger, bookrunner and documentation agent in a EUR 500 million club deal for Porsche Corporate Finance, guaranteed by Porsche Holding. Erste Group upheld its strong position in CEE bond markets through the combined efforts of product specialists and client executives. ČEZ, the leading Czech energy group, mandated Erste Group as joint lead manager and bookrunner for its EUR 500 million 2016 benchmark transaction. In addition, Česká spořitelna arranged for ČEZ a private placement in the amount of CZK 1.25 billion. Czech Railways selected Erste Group as joint lead manager and bookrunner for its inaugural EUR 300 million 2016 Eurobond issue. Increasing emphasis has been put on transaction banking. Enhanced product offers in cash management allow clients to optimise payment flows in the CEE region while also positively contributing to the deposit base. Given the export-oriented nature of Erste Group's markets, trade flows were supported by trade finance and services.

Focus Of Erste Group Immorent remains on existing real estate portfolio. The operating environment for the real estate sector remained challenging. Activities in CEE during 2011 were mostly limited to prime quality real estate investments. Yields decreased in most countries. New development activity has not yet picked up. The continued commitment to the region and clients was recognised, as Erste Group Immorent in the Czech Republic was named Developer of the Year by the Construction & Investment Journal, a leading CEE real estate trade publication. Erste Group remains convinced that a significant need to renew the real estate stock across its core markets will support a positive market development in the future.

EGI adhered to a cautious and selective market approach in 2011, focusing on high quality new business with clients in Erste Group's core region. The emphasis remained on managing the existing portfolio and on supporting weaker clients and projects. Consequently, the segment's portfolio did not change significantly and the overall exposure decreased slightly to EUR 11.7 billion. This figure excludes roughly EUR 4.7 billion ofbuilding society business of Bausparkasse (commercial and subsidised housing), as well as any activities of the savings banks and the local real estate business. The portfolio remained well-diversified. The most stable economies of Erste Group's region (Austria, Czech Republic and Slovakia) accounted for approximately half of the exposure and the majority of the total volume was related to projects in the capitals and major economic centres. Retail outlets accounted for 23%, offices for 21% of the portfolio. Further important asset segments were hotel/tourism (11%) and logistics/industry (10%).

Group Investment Banking franchise in CEE is growing. Group Investment Banking's competitive advantage stems from delivering professional service at an international standard, efficient product organisation that builds upon local insights, and very close co-operation between GCIB's client coverage teams and the local corporate banking teams.

Transaction highlights in 2011 included sell-side advisory services and full underwriting of a EUR 150 million staple finance transaction to Permira Private Equity for the sale of Provimi Pet Food, a regional pet food producer headquartered in Budapest. The financing was taken up by Advent International, which acquired the business from Permira. This was the only successful buy-out in CEE during 2011 based upon a staple finance transaction. Leveraged buy-outs were arranged in Poland (where Resource Partners acquired Polbita, a Polish personal care retail group) and Croatia (as Bancroft Private Equity bought the private courier service CityEx). Other transactions included a joint mandate as bookrunner for Kapsch TrafficCom in its equity capital increase at the Vienna Stock Exchange through accelerated book building and a sole mandate to act as bookrunner for Intercell on a EUR 33 million convertible bond. In the second half of 2011, several M&A as well as equity capital market transactions were deferred or put on hold as a consequence of depressed trading and low transaction multiples in the relevant peer groups.

International Business accelerated portfolio reduction. The business objective traditionally has been to provide risk-return diversification to complement Erste Group's performance. Given the Group's strategic business objective to adjust or exit non-core activities, the International Business unit will continue in its efforts to divest. The globally diversified portfolio of International Business bank and sovereign exposures included loans and bonds as well as credit default swaps (CDS). In the fourth quarter 2011, the International Business CDS investment portfolio in the net amount of EUR 5.2 billion was closed out. Changes in the fair value of the CDS portfolio led to losses of EUR 420 million in total, EUR 183 million therof in 2011.

Financial review

in EUR million	2011	2010
Pre-tax profit/loss	116.4	161.3
Net profit/loss after minority interests	73.7	115.7
Operating result	341.4	370.1
Cost/income ratio	35.9%	33.2%
Return on equity	3.8%	5.7%
Customer loans	19,805	18,745
Customer deposits	5,493	6,135

In the financial year 2011, net interest income decreased by EUR 31.0 million, or 5.4%, to EUR 543.2 million. This was attributable to the continuing reduction of business volume in the International Business unit. In Austria, net interest income from real estate business was slightly up in 2011 while net interest income from the large corporate business was slightly down year on year, particularly in CEE. Net fee and commission income improved in the financial year 2011 by EUR 10.5 million, or 9.7%, to EUR 118.8 million, mainly due to real estate development business in Austria. The net trading result was affected by the negative impact of changes in the fair value of the CDS investment portfolio of the International Business Unit and, at EUR -129.2 million, was unchanged versus the previous year. Operating expenses were up EUR 7.6 million, or 4.2%, to EUR 191.5 million, driven mainly by costs related to Immorent.

Risk provisions rose by EUR 1.8 million, or 1.0%, to EUR 178.2 million. While risk provisions were up by EUR 24.9 million in the real estate and large corporate business, they declined significantly in the International Business as a result of portfolio reduction. Overall, the operating result declined from EUR 370.1 million in 2010 by EUR 28.7 million, or 7.8%, to EUR 341.4 million in the financial year 2011. The decline in the item "Other result" by EUR 14.3 million, or 44.0%, to EUR -46.7 million, was primarily attributable to higher write-downs and losses on asset sales in the International Business.

Net profit after minorities declined from EUR 115.7 million by EUR 42.0 million, or 36.3%, to EUR 73.7 million. This was due in particular to lower income from the International Business. The cost/income ratio rose from 33.2% in the previous year to 35.9%.

Credit risk

Total exposure in the GCIB segment shrank in 2011, as it had in previous years, and amounted to EUR 29.7 billion at the end of the year. The decline was due to the International Business subsegment. By contrast, lending volume in the GLC and EGI subsegments increased. Loans to customers across the GCIB segment as a whole grew from EUR 18.7 billion to EUR 19.8 billion in 2011. At year-end, GCIB lending accounted for 14.7% of Erste Group's entire loan portfolio. The EGI and GLC subsegments accounted for almost 92% of total lending to GCIB customers.

In 2011, around 7% of the GCIB portfolio was comprised of loans to the public sector, while the rest was related to corporates and project financing. Euro-denominated loans accounted for 78.8% of the GCIB portfolio, and US dollar loans decreased in significance. The share of secured loans increased.

Asset quality deteriorated in 2011: Non-performing loans rose by EUR 244 million to almost EUR 1.3 billion. On the other hand, the share of the top risk categories in the portfolio rose from 65.3% to 72.6%. The NPL coverage ratio improved from 53.8% at year-end 2010 to 54.6% for year-end 2011.

Group Markets (GM)

The Group Markets segment comprises the divisionalised business units Group Treasury and Group Capital Markets (GCM). In addition to Erste Holding's own treasury activities, it encompasses the treasury units of the CEE subsidiaries and of the branches in Hong Kong, New York; the branches in Berlin and Stuttgart; the investment banks in Poland, Hungary and Turkey as well as Erste Asset Management. Group Capital Markets 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 in securities for all customer groups. Moreover, it is tasked to design and develop products that cater to market demand in Erste Group's core markets.

Business review

Strategy. The focus is on client-oriented capital markets business. Group Capital Markets is the link between financial markets, customers and the bank. In an environment of persistent uncertainty, customers benefit from the Group's strong network in the CEE region and the resulting solid knowledge of local markets and customer needs. Products are developed jointly with the sales units in an ongoing process. The bank's array of standard products is a key contributor to its success, as are the customised products that emphasise simple structure, competitive pricing, plus professional and personal advisory services. Erste Group responded very early to the adverse market situation and increasingly offered products – especially for the retail segment – that are easy to understand and have a strong focus on safe investing. To serve institutional customers, designated teams have been set up not only in Vienna but also in Germany, Poland, Turkey and London. These teams offer a selective product range with a sharp focus on CEE. The goal is to combine the best of the various core markets while benefiting from synergies.

Highlights from 2011

New branches in Germany. Erste Group took advantage of opportunities opening up due to changes in the German banking industry and in 2011 began providing services to German institutional customers such as savings banks, insurance companies and pension funds directly from its new branch offices in Berlin and Stuttgart. The focus is on fixed-income products and services, including primary market activities, bonds and other debt securities (e.g. the unique German Schuldscheindarlehen) from Erste Group's core markets.

New web portal features. The web portal at https://produkte.erstegroup.com features not only information on products, markets and trends but also research reports and numerous videos with content ranging from market opinions to product information and training sessions. The videos are produced in-house to ensure that reports on market developments and new products are always up to date. The high click rates confirm lively demand for information provided through this channel. The "Client Valuation Tool" project was completed successfully in 2011. This is an application that provides automated valuations of portfolios to corporate and institutional customers.

Leading position in CEE new issues. In the CEE 'League Tables', Debt Capital Markets retained its number one position in bond issuance and even successfully gained market share in this segment compared to the previous year. Despite a difficult market environment, Debt Capital Markets successfully placed numerous government bonds through its well-established sales network. In addition, it won mandates from several renowned companies from within the bank's core markets.

Financial review

in EUR million	2011	2010
Pre-tax profit/loss	232.6	327.9
Net profit/loss after minority interests	166.6	245.1
Operating result	234.4	326.2
Cost/income ratio	51.1%	41.7%
Return on equity	53.4%	75.7%
Customer loans	225	331
Customer deposits	2,459	2,536

Net interest income rose by EUR 41.0 million, or 26.2%, year on year to EUR 197.4 million, mainly due to the shift of funding costs and interest income from trading assets. Income from fixed income business was lower in the financial year 2011 than in the previous year. Net fee and commission income fell by EUR 30.5 million, or 19.4%, to EUR 126.6 million, which was due in particular to declining contributions from Asset Management and direct sales of treasury products. The risk provisions in the amount of EUR 12.0 million were related to an impairment of an interbank transaction. The net trading result was down from EUR 246.3 million in the previous year by EUR 91.1 million, or 37.0%, to EUR 155.2 million. Adjusted for the shift of funding cost and interest income from trading assets, the decline amounted to about 15%. At EUR 244.8 million, operating expenses were up by EUR 11.1 million, or 4.8%, mainly due to new offices in Germany (fixed-income sales) and higher costs in Asset Management and in CEE.

The operating result declined by EUR 91.8 million, or 28.1%, to EUR 234.4 million. The cost/income ratio rose from 41.7% to 51.1%. Net profit after minorities declined by EUR 78.5 million, or 32.0%, from EUR 245.1 million to EUR 166.6 million. Return on equity was 53.4%.

Corporate Center (CC)

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	2011	2010
Pre-tax profit/loss	-1,327.3	-210.6
Net profit/loss after minority interests	-1,207.1	-145.8
Operating result	-86.4	-77.7
Cost/income ratio	275.0%	237.1%
Return on equity	n.a.	n.a.

The increase in net interest income by 32.4%, from EUR 84.7 million to EUR 112.1 million, was mainly driven by positive contributions from asset/liability management. The negative development of net fee and commission income was attributable mainly to profit consolidation, which also had a partial impact on general administrative expenses. Organisational and regulatory requirements resulted in cost increases for centralized steering and management units.

The item “Other result” included the straight-line amortisation of customer relationships of BCR, Erste Card Club, and Ringturm KAG totalling EUR 69.0 million as well as one-time goodwill write-downs of EUR 692.8 million for the Romanian subsidiary Banca Comercială Română, EUR 312.7 million for the Hungarian subsidiary Erste Bank Hungary, and EUR 52.7 million on Austrian subsidiaries. The Austrian banking tax related to the Holding in the amount of EUR 117.5 million was also reported under “Other result”.

Commitment to society

Already 192 years ago, the very founding concept of the savings banks embraced the idea of contributing to the common good. Today, Erste Group's MehrWERT sponsoring programme is a visible representation of the continuing commitment to society. It provides support to numerous institutions, initiatives and projects in the areas of social welfare, culture and education. Erste Group's selective support for sports likewise has a long tradition.

SOCIAL ACTIVITIES

The Group's commitment to social welfare is characterised by longstanding co-operation with established local and international organisations. It focuses on providing practical and swift assistance to people in difficult life situations, supporting initiatives for the long-term personal development of disadvantaged people, and creating new opportunities.

Caritas and Erste Group have been partnering for many years. An important element in their widely ranging joint efforts is the fight against poverty in Austria. Erste Bank Oesterreich sponsors, among other things, domestic aid campaigns as well as the annual Eastern Europe campaign to help children in Europe's poorest countries. Branches, many departments, as well as several savings banks took part during 2011 in the Coffee to Help campaign. Customers, colleagues and friends were invited for coffee and encouraged to donate to the charity Kinder in Not (Children in Need). Support for youngCaritas.at was also continued. This project offers young people aged between 15 and 24 the opportunity to become acquainted with the work of Caritas and to gain experience in social work by, for example, collecting food or organising school tutoring. Česká spořitelna has co-operated for several years with Caritas Czech Republic on a number of projects.

Since 2003, Erste Bank Oesterreich, the savings banks and sBausparkasse have been sponsoring Hilfswerk Österreich, one of the largest non-profit providers of health, social and family services in Austria. Assistance is given to the annual initiative Kinder Fördern, Eltern Helfen (Promoting Children, Helping Parents), which offers information on specific matters such as child care and child-care allowances, children's safety, preventive health care and nursing care.

Erste Bank Oesterreich again supported the association known as lobby.16, which works to protect the right to education of unaccompanied young refugees and gives them access to education, employment and participation in social life.

Erste Bank Croatia assists the project Step into Life, which provides scholarships to young people from deprived social backgrounds in order to enable them to obtain university degrees.

At Erste Bank Hungary, social activities focused on helping young people, improving living standards of the disadvantaged, and promoting good health (primarily through encouraging healthy lifestyles and initiatives to prevent disease). In addition to cash donations, the bank often donates the expertise and social work of its employees to help those in need. Some of its local partners are SOS-gyermekfalvak (SOS Children's Villages), Magyar Vöröskereszt (Hungarian Red Cross) and Mosoly Alapítvány (Smile Foundation).

ART AND CULTURE

In 2011, Erste Group supported and promoted partnerships between cultural and social institutions intended to develop common ideas and strategies for deepening the understanding and appreciation of art. One example is the project Kultur-Transfair, a part of "Aktion Hunger auf Kunst und Kultur" (Hunger for Art and Culture Campaign). Partners of Erste Bank Oesterreich – comprising in each case one cultural institution and one social institution – collaborated in developing projects designed to meet social needs of the target groups while inspiring interest in culture and facilitating access to it.

Starting with the 2011/12 season, Erste Bank Oesterreich is principal sponsor of Jeunesse, an organisation that offers an extensive concert programme covering classical, jazz, world and new music as well as children's concerts. While developing new concepts for teaching music appreciation, Jeunesse puts equal emphasis on actively promoting young artists and giving them opportunities to perform professionally. A goal of this co-operation is to provide socially disadvantaged people a chance to experience music by putting on special workshops for children and young people as well as concerts at retirement homes. Erste Group works, too, with charitable organisations such as Caritas to implement concrete measures for bringing music to people.

For the eighth time, Erste Bank Oesterreich acted as the principal sponsor of Viennale, Austria's largest international film festival. Customers and employees were able to profit directly from discounted cinema tickets. For the first time, Erste Bank Oesterreich awarded the "MehrWERT" film prize to a film presented at Viennale 2011 by an Austrian director. The award went to Gerald Igor Hauzenberger for "Der Prozess" (The Trial).

Vienna Design Week is an international design festival staged annually in autumn. It is a unique combination of experimentation, culture and business. With support from Erste Bank Oesterreich, each year five selected designers obtain an opportunity to bring their projects to fruition as part of the festival. In 2011, a social design project on the subject of homeless young people was presented in co-operation with Caritas Vienna.

As its principal sponsor, Erste Group enabled galleries from Central and Eastern Europe to take part in Viennafair. In recent years, this event has become well-established in the international art community for contemporary art focused on Central, Eastern and South-eastern Europe.

Erste Bank Hungary is a sponsor of the Palace of Arts (Művészetek Palotája), a centre for arts recognised and acclaimed both in Hungary and internationally. The bank was awarded the Summa Artium Award 2011 in the category of contemporary art for its many years of supporting contemporary culture and art. Česká spořitelna is a partner of the Prague Spring Festival as well as the Prague Spring International Music Competition. In addition, the bank supported other classical music festivals such as the International Music Festival in Český Krumlov and Smetana's Litomyšl. It also assists the Colours of Ostrava music festival and the Designblok Days exhibition in Prague. Through its programme directed to decentralising culture and known as Centrifuga, Erste Bank Serbia has supported 35 projects in more than 20 Serbian towns over the last five years. Erste Bank Serbia also lent its support to the talent, success and creativity of young people through the Klub 27 project. Slovenská sporiteľňa, meanwhile, sponsored Bratislava Jazz Days, an annual international festival of jazz music.

Kontakt, the art collection of Erste Group, explores art production in Central, Eastern and South-Eastern Europe with a special emphasis on contemporary art discourses and critical theory. Kontakt reflects the political transformation in Europe and the significance of art before the background of specific cultural, social and economic developments in the post-socialist countries.

FINANCIAL LITERACY

Improving financial literacy is fundamental to economic growth and to the long-term wellbeing of communities. Initiatives to increase the understanding of finances are well aligned with Erste Group's savings bank tradition. The underlying concept of empowering individuals to make informed decisions about the management of their money is even more important in times of economic uncertainties.

Financial education starts at an early age. As one of ZOOM Kindermuseum's main sponsors, Erste Bank Oesterreich initiated a travelling exhibition on the topic of money for a target group of children between 6 and 12. The exhibition "Show me the money" deals with the basic terms of finance. It explains how money came into being, what it is for and how it is produced. In 2011, it was on display at the children's museum in Graz and will be presented in various Central- and Eastern European cities in the next years, e.g. at the Children's Museums in Bratislava in 2012.

On www.csas.cz/mladi, Česká spořitelna provides information about financial products and instruments to young customers. The bank also operates Moneymanie.cz, an educational internet portal designated primarily for children and adolescents, but also for their parents and teachers. Children up to the 1st level of primary schools are the target group for Spořínkov (www.csas.cz/Sporinek). Erste Bank Hungary runs a financial literacy program named "Pénzügyi Kisokos" (Financial Guide), a non-branded financial guide website, and edits a blog on basic financial topics for younger generations.

Erste Bank in Croatia and Erste Bank Serbia offer "Managing Personal Finance" workshops for people, who want to improve their financial know-how. The Erste Group Ukraine is offering a School of financial literacy and entrepreneurship program to give children from low-income families the possibility to get basic financial and business knowledge.

SPORT

The capacity for sports to bring people together while encouraging them to pursue common goals embodies an ideal that also can be seen in Erste Group's business philosophy. The bank has supported amateur and professional sporting events in Austria and Central Europe for many decades. Projects are carried out in a spirit of close partnership with the organisers and hosts of those events. Ice hockey, running and tennis are given particular emphasis, as is the promotion of activities for young athletes.

In tennis, activities range from support for such amateur initiatives as the BCR Tennis Partner Circuit and the BCR Tennis 10 in Romania to sponsorship of tennis professionals like Jürgen Melzer in Austria and Viktor Troicki in Serbia. In 2011, Erste Bank Oesterreich was for the first time the main, name-giving sponsor of Austria's most important tennis tournament, the Erste Bank Open in Vienna.

Erste Bank Sparkasse Running is the largest running initiative in Austria. In 2011, Erste Bank Oesterreich and the savings banks supported 212 running events involving more than 100,000 participants dashing some 2 million kilometres throughout Austria. The bank's internet presence was expanded to include a Facebook page for Erste Bank Sparkasse Running.

Since 2003, Erste Bank Oesterreich has been sponsor of the professional Austrian Ice Hockey League, the Austrian national ice hockey team, as well as the local Vienna Capitals team.

For more than 30 years, Erste Bank Oesterreich and the savings banks have supported the school leagues in soccer and volleyball. This commitment represents the longest-standing sponsorship for promoting young athletes in Austrian sports and boasts the participation of over 1,000 schools. That makes it the largest youth competition in Austria. In 2011, the final games of the school league were held in Bad Gastein (volleyball) and in Schwaz (soccer).

CORPORATE VOLUNTEERING

Volunteering programmes comprise a key element within Erste Group's concept of corporate social responsibility. All the Group's local subsidiaries support community projects through cash contributions, donations in-kind and matched-giving. Moreover, employees are encouraged and empowered to engage in corporate volunteering, frequently in co-operation with long-term partners or through the banks' financial literacy initiatives.

More than 400 employees of Erste Bank Oesterreich and the savings banks work on a voluntary basis at the Zweite Sparkasse initiated by Erste Foundation. People who are in financial difficulties and therefore have no access to banking services can open an account without an overdraft facility with this "bank for people without a bank". The account is offered only in close co-operation with partners such as Caritas and accompanied by debt counselling services.

In 2011, Slovenská sporiteľňa volunteers focused on financial literacy and support to youth, such as the "Know Your Money" initiative, which educated students at elementary and secondary schools about earning, spending and saving money.

Banca Comercială Română launched an internal online volunteering platform that provides access to volunteering opportunities with 110 organisations across the country.

Česká spořitelna continued its successful grant programme, wherein employees may nominate a non-profit organisation within a defined strategic area that helps people in need. Examples include fostering sustainable environmental development and assisting the elderly, the disadvantaged or drug addicts. Česká spořitelna staff voted for six projects to receive one-off grants. Moreover, employees participating in voluntary projects are entitled to two charity days per year during which they continue to be paid by the bank while they provide volunteering services to the community.

Supporting our customers

RELATIONSHIP BANKING

Erste Group puts clients and their interests at the centre of attention. Erste Group strives to build and to maintain long-term relationships with its customers by offering appropriate and understandable products and advice. The bank is constantly working to improve its service quality and to tailor its product portfolio to the demands and requirements of customers. Several factors are taken into account, including the financial knowledge and experience, financial position and risk appetite of the individual client. To provide reliable, high-quality financial services to all clients is an important element of the customer relationship concept. With a view to retaining trust and loyalty, the approach is to "pull customers" rather than "push products".

ACCESSIBILITY

With social media and virtual contacts gaining in importance, dialogue with clients is no longer limited to contact at the counter in branches or on the telephone. Accessibility across multiple channels will further improve the convenience of Erste Group services. Technology is going to play a pivotal role in improving customer satisfaction.

In 2011, Erste Bank Oesterreich introduced video and online meeting capabilities for retail clients as an increasing number of clients browse the web for financial consultancy. Video conferencing is used to present financial topics of interest (e.g. to inform customers with foreign currency loans about various scenarios). In addition, one-to-one online meetings were offered enabling individual clients to talk about financial topics specific to them. Currently, 25 online retail advisors are available.

Even at a time when electronic banking is gaining in importance, the branch network with its facilities still remains a key access point for clients. Erste Bank Oesterreich and the savings banks introduced special, self-service machines with auditory instructions for blind and partially sighted people. The "speaking ATM" was developed jointly with experts from the Austrian Federation of the Blind and Partially Sighted and optimised in several test phases. By the end of 2011, in all lobbies of Erste Bank Oesterreich branches at least one self-service device was equipped with a headphone jack and labelled device keyboard. Savings banks will implement this new feature during 2012 in a similar form.

CUSTOMER SATISFACTION

Erste Group is committed to continuously improving the customer experience and quality of its services. Proving its willingness to put even more emphasis on consumer orientation, Erste Group established the independent "Group Customer Experience" unit combining marketing research, service quality management and complaint-handling functions. This set-up has increased the bank's ability to understand customer needs and expectations and act upon them immediately in the most effective manner.

To assess customer satisfaction, market surveys and quality checks such as mystery shopping or determining "moments of truth" − key interactions with clients which contribute most to customer satisfaction − are conducted on a regular basis in all markets where Erste Group is represented except Ukraine. The results of the 2011 customer satisfaction surveys comparing the local Erste Group banks with their industry peers were encouraging. Customers of Erste Bank Oesterreich and the Austrian savings banks, Slovenská sporiteľňa, Erste Bank Croatia, Erste Bank Serbia as well as Česká spořitelna and Erste Bank Hungary ranked them as either the top or second-best bank by local satisfaction rating.

In addition to customer satisfaction, Erste Bank Oesterreich focused strongly on boosting the recommendation rate among customers. The willingness to recommend the bank branch and individual advisor both increased again compared to 2010. Erste Bank Oesterreich introduced an enhanced qualitative approach to mystery shopping, with the evaluation incorporating active performance assessment as well as coaching and best practice examples. Česká spořitelna and Banca Comercială Română initiated projects to identify those "moments of truth" and focused their service quality efforts to improve significantly in these key interactions

Erste Group as a whole focused its efforts in 2011 on further increasing the service orientation of branch staff and improving process effectiveness and system reliability. Internal service quality is considered essential to Erste Group's ability to provide high-quality professional services to its clients.

ETHICAL INVESTING

Erste Group's Austrian fund management organisation, Erste Sparinvest, was an early mover in anticipating the growing needs and intentions of investors to increasingly emphasise environmental and ethical-social aspects in their investment decisions. Over the past decade, Erste Sparinvest has used these changes as an opportunity to develop the largest variety of ethical-sustainable funds in Austria. Erste Sparinvest is an acknowledged provider of ethical-sustainable investment funds in Austria and the CEE region. Assets under management reached EUR 1.5 billion in 2011, an increase of 15% compared to 2010.

In 2011, Sparinvest's sustainability specialists managed ten investment funds plus several externally mandated portfolios. The managed mutual funds comprised three bond funds, four regional stock funds as well as a microfinance fund of funds and two theme funds for climate protection and the environment (the latter funds are managed in co-operation with WWF Austria). In 2011, Espa Vinis Bond Euro-Corporate, a new fund focusing on European corporate bond issuers, was launched.

Erste Sparinvest is a subscriber to the United Nations-backed Principles of Responsible Investment. In 2011, the company decided from the beginning of 2012 to prohibit investments into companies active in the field of controversial weapons, such as land mines, for all actively managed mutual fund portfolios.

FINANCIAL INCLUSION

One of the main reasons behind the foundation of Erste österreichische Spar-Casse 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 do not have access to financial services from commercial banks.

good.bee is the financial inclusion business owned 60% by Erste Group and 40% by Erste Foundation. Set up in 2008, its principal task is to develop innovative solutions for breaking down the barriers to financial inclusion for individuals and enterprises in Central and Eastern Europe. By extending the reach of responsible and suitable financial services to social enterprises and disadvantaged people, good.bee aims to support social integration and promotes economic development of individuals and communities.

In 2011, good.bee's business focus remained on the areas of microfinance and social enterprise finance. Microfinance is about finding financial solutions for individuals and entrepreneurs who lack access to financial services. Social enterprise finance develops solutions for the social sector. In addition, local support networks assist in capacity building for social entrepreneurs, helping them to acquire the knowledge and skills they need to become successful in their ventures.

good.bee Credit was set up in 2009 in partnership with the Economic Development Center in Romania. The company offers development-oriented financing products for economically active individuals and small businesses. From individual farmers to small shop owners, customers are provided with investment loans and working capital to sustainably develop their businesses.

good.bee Mobile Transactions combines the advantages of mobile telephones with an easy-to-use bank account and debit card. Since 2010, this venture is owned by Banca Comercială Română (BCR). Through an independent sales network, the company offers its clients an affordable good.bee current account and debit card as an easily accessible payment platform. Customers can send and receive payments via mobile phone technology, with no need to visit a branch.

Through the local Erste Group banks, good.bee offers social enterprise finance solutions to suit the needs of the social sector. At Erste Bank Oesterreich, a separate social banking unit co-ordinates all activities relating to social issues and businesses. While there exist various financing options and instruments for commercial companies, the social sector is largely underbanked.

Several good.bee initiatives were launched in 2011 by the local banks of Erste Group. Namely, Erste Bank Serbia and the Serbian National Employment Agency launched a programme to support unemployed young people with capital and training to set up their own businesses. The project is called "supERSTEp" and offers loans of up to RSD 500,000 to selected candidates. Erste Bank Croatia is also supporting self-employment by providing investment loans to people and businesses that have difficulties meeting standard requirements for obtaining loans. The Centre for Entrepreneurship has been offering these customers training and mentoring in the Osijek area. This part of the region Slavonia was chosen due to its extremely high unemployment rate.

Banca Comercială Română granted several loans to social organisations in 2011 and has acquired great experience in working with the social sector. The first social enterprise borrower of Erste Bank Ukraine was a medical rehabilitation centre investing in medical equipment. Česká spořitelna has launched a social enterprise finance pilot project for social enterprises in the Czech Republic. Further social enterprise loans were finalised in Austria, Hungary, Serbia and Slovakia.

Employees

Retaining experienced and committed employees is fundamental to the long-term success of every company. Toward that end, Erste Group strives to be an employer of choice for talented people in Central and Eastern Europe. The bank aims to attract professionals committed to working long term with Erste Group by offering career development opportunities within a strong organisation that is governed by sound values. Mobility within the Group is encouraged and facilitated by a group-wide, cross-border internal job market.

RECRUITING AND EMPLOYER BRANDING

In 2011, Erste Group launched an employer branding initiative to define what working at Erste Group is all about. The bank's commitment and promise as an employer is embodied in its declaration that, "At Erste Group, we believe earning money must have a deeper meaning". The bank endeavours to attract and support experts and people with potential who show initiative and who wish to take their careers into their own hands. Countless surveys show that long-term happiness at work derives not from salary alone but from genuine satisfaction. While what constitutes this satisfaction certainly can vary from person to person and market to market, people remain committed if they enjoy their working environments. In 2011, employees from all Erste Group markets were featured in a campaign – "The faces of Erste Group" – encouraging them to share their personal, real-life accounts of working for the bank.

KNOWLEDGE AND TRAINING

Erste Group strives to tap into the full potential of its workforce through comprehensive development programmes. Investing in human resources ensures that employees have the skills and competences they need to work efficiently in a rapidly changing and complex environment.

Targeting professionals from different areas, Erste School of Banking and Finance established three new business colleges in 2011. Developed in co-operation with the respective business lines, the colleges provide expert knowledge and a uniform understanding of standards and processes within Erste Group at fundamental, advanced, and excellence levels. Because people constitute a crucial differentiating factor in banking, the Human Resource College provides Human Resources professionals with knowledge and skills to optimally perform their increasingly challenging role. The Private Banking College aims to implement best-practice quality standards as well as instil unsurpassed professional conduct and etiquette across Erste Group, thus providing relationship managers with a competitive edge in the marketplace. The Project Management College enhances IT project and change management competences across Erste Group and awards professionals with internally and externally recognised certificates. In addition, the colleges for risk management, trading, investment banking, corporate banking, and controlling continued their training programmes.

Intending to expand employees' knowledge base, the well-proven, open-access Group Lecture Series was continued in 2011 with around 50 lectures presented by outstanding internal and external speakers in Austria and CEE countries. Topics from various areas of banking and beyond were taken up in order to stimulate thinking that is strategic, innovative, and ventures "outside the box".

The Erste Group Junior Trainee Programme kicked off with a new class of trainees. Each year, a group of bright and highly skilled university graduates is given the opportunity to discover the world of Erste Group by participating in the programme. After one year of intensive on-the-job training as well as classroom education, the programme ends with an examination, a project presentation, and a final evaluation. Trainees acquire a solid understanding of the banking industry and of Erste Group's core business fields.

TALENT DEVELOPMENT

The group-wide Talent Career Management (TCM) process – set up to identify, develop and retain employees who demonstrate both high performance and high potential – comprises several initiatives for different target groups. As from 2011, the selection of talent is focused on creating a pool of internationally mobile potential successors for key positions across Erste Group. Upon passing the selection process, successful candidates will each be offered a dedicated development plan addressing the requirements of a respective key position.

In order to be part of TCM initiatives, an employee needs to be nominated and must meet the basic criteria of high performance and high potential for further growth. Business goals achievement and leadership competency ratings are taken into account. To assess potential, the following dimensions are evaluated: international career aspiration and drive; learning and next-level competencies, and commitment and values.

The second class of the Group Leadership Development Programme (GLDP) graduated in 2011 after completing the compulsory cross-border job rotations. The third GLDP class is planned for 2012–2013 and will be open to members of the international succession pool. In December 2011, the second class of CONNECT (the international development programme for senior specialists) kicked off with its goal to boost international knowledge exchange, networking, and career support for selected non-managerial talents. With this group, the number of employees having taken part in one of the group-wide TCM development programmes rose to 152.

PERFORMANCE MANAGEMENT

Performance management is an important tool underpinning Erste Group's HR programme. This aligns agreed individual targets for employees with the bank's goals in order to improve overall performance. The concept unites business performance and competency performance criteria, and each individual employee's accomplishments are measured against specific competency criteria. In 2011, further steps were taken to strengthen the objectives and target-setting as well as the employee appraisal dialogue. The updated group-wide performance management process was implemented in Erste Bank Hungary and Ukraine. Erste Bank Oesterreich, Erste Group Bank, Slovenská sporitel´ňa and Česká spořitelna will follow in the beginning of 2012. The regular employee appraisal dialogue is one of the central performance management tools available to managers and employees. Invaluable, too, is 360° leadership feedback, which gives about 2000 Erste Group managers the opportunity to receive structured multi-source feedback from their superiors, peers, and subordinates. This evaluates leadership competencies, which at Erste Group are regarded to include innovation, development (with a focus on living and promoting cultural diversity, inspiring commitment, team development and leadership, self-awareness and learning) and execution (customer orientation, driven by performance and results). Banca Comercială Română and Erste Bank Croatia have piloted the 360° feedback method in the retail branches.

EMPLOYEE ENGAGEMENT SURVEY

As committed and motivated employees play a vital role in Erste Group's success, a group-wide survey was conducted to establish which factors impact on staff engagement. More than 32,000 employees participated in the 2011 employee engagement survey (a 74% response rate), and results from the survey were representative for every country. The survey will be repeated at regular intervals in order to implement continuous improvement measures and obtain up-to-date employee feedback.

The survey's findings proved that especially teamwork and good leadership are seen as above average. In other areas (e.g. equality of opportunity for all employees), the bank did not always match up to employees' expectations. Improvement measures will be developed in every country and consolidated at group level in January 2012. A project team specifically has been set up for this purpose and will monitor the development and implementation.

REMUNERATION POLICY

In 2011, Erste Group focused on implementing a variable remuneration policy that provides performance criteria for determining and paying bonuses. The variable remuneration is linked to the performance of individuals, a given team or entity, and the Group as a whole. In addition, the performance measurement considers adherence to group standards for risk-taking, to the group values, and to the bank's strategic direction. The policy also describes the governance structure regarding bonus decisions. Erste Group's remuneration governance structure and practices are in line with the CRD III (Capital Requirements Directive) regulation and guidelines on remuneration from the European Banking Association. The group-wide variable remuneration framework is fine-tuned in local banks and entities to comply with varying country legislation and interpretation of CRD III by the respective national banks.

HEALTH AND WORK-LIFE BALANCE

Investing into its employees' physical health and psychological well-being is a key priority at Erste Group.

An analysis by Erste Group's corporate health centre showed, not unexpectedly, marked regional differences in statutory standards and the organisation of health-promoting activities at local subsidiaries. To improve overall health services and strengthen collaboration among relevant staff, a group-wide strategy will be implemented in a phased process. Local needs and national differences in the health care sector will be taken duly into account.

Common milestones were defined in 2011 and the first group-wide projects launched. Simultaneously in Romania and in Austria, a project designed to prevent cardiovascular diseases was implemented while taking a multi-modal approach (nutrition – exercise – smoking – stress – high blood pressure). Supporting measures included, among others, the involvement of employee cafeterias, provision of blood pressure meters at the workplace, and training of health care experts. The focus of these efforts was on "enabling", which means to help employees improve their understanding of health care issues and, consequently, take the right decisions for a healthy lifestyle.

In Austria, some 1,200 Erste Group employees took part in a voluntary medical check-up. This examination was supplemented by in-depth advice on lifestyle issues and a well-balanced diet. In addition, special examinations were offered centring on early detection of smoker's lung, melanoma, and rheumatism.

The health centre addressed not only matters of physical health and conventional primary prevention (focused on the cardiovascular system, preventing diseases of the spinal column and musculoskeletal system in sedentary occupations, and preventative projects targeting apprentices – for which the bank received an award for corporate health management in Austria) but also issues of mental health in the work environment.

Under a group-wide initiative aimed at preventing mental disorders, Erste Group managers were issued a specially designed handbook entitled "Leading the way to better health". Greater attention was given to providing psychological counselling, where needed, and that is focused on occupational issues. Further key areas addressed were stress management and burnout prevention. Managers and staff were informed about early detection and stress-release techniques.

Building a network of diverse players within the Austrian health care system (ministry, pension insurance, general practitioners and specialists, the Chamber of Commerce, health insurers) proved to be very effective. In a joint pilot project, all options available for the prevention and treatment of mental difficulties were exploited. One key component is a standardised re-entry management procedure for employees returning after protracted illness. The project yielded surprising results. Erste Group was able significantly to reduce the cases of mental illness among its staff, with their number currently at only about one-third the average level in the "salaried employees in Austria" peer group.

For its exemplary commitment to managing mental health, Erste Bank Oesterreich's approach was recognised as a "model of good practice" by the European Network for Health Promotion. The Federal Ministry for Social Affairs has recommended the project as an "Austrian best practice model" for rolling out to other companies

Staff indicators – Austria (excluding savings banks)

	2011	2010	2009
Employee turnover	4.4%	4.8%	4.4%
Sick days per year	7.5	7.8	7.6
Training days per year	2.7	2.5	2.9
Women in management positions	26.8%	26.7%	25.4%
Share of part-time staff	25.8%	25.3%	23.6%
Share of female part-time staff	80.4%	79.8%	83.4%

The equivalent 2011 data is available for employees in CEE as well for the first time. The data base will be enlarged.

Staff indicators – CEE

	2011	2010	2009
Employee turnover	7.6%	*	*
Sick days per year	5.4	*	*
Training days per year	3.0	*	*
Women in management positions	31.6%	*	*
Share of part-time staff	2.6%	*	*
Share of female part-time staff	55.8%	*	*

*not reported yet

Environment

Respect for the environment, just like respect for individuals and for society, is an integral part of Erste Group's corporate philosophy. Adoption of the environmental strategy in 2010 reinforced the Group's efforts to develop ecologically sustainable banking operations. The focus is on reducing the direct and indirect impacts on the environment from all its activities. Sustainable environmental protection and related issues are to be integrated even more effectively into the core activities of Erste Group. A precondition for achieving this goal is for employees to understand the impact that their behaviour has – or may have – on the environment. Therefore, creating awareness among employees is fundamental to the strategy's successful execution.

Erste Group began during 2011 to implement the environmental strategy while initially focusing on measures undertaken in Austria. Many larger and smaller projects and measures were completed according to schedule, although the introduction of an integrated environmental management system (e.g. according to ISO 14001) was postponed.

SUSTAINABLE USE OF RESOURCES

More economical use of resources such as water, heating and cooling energy, electricity and paper means lower consumption, and that, in turn, indirectly reduces CO_2 emissions. Diminished costs represent a welcome side effect, as the positive ecological contribution translates into an economic benefit. Another priority in environmental management is to assure the ecological quality of those resources used.

One positive example can be seen in electricity consumption at Erste Group's Austrian business locations . Negotiations were undertaken in 2011 to switch to an electricity provider supplying power from renewable sources, such as water, wind and solar. These talks were successfully finalised at the beginning of 2012, and as of the second quarter Erste Group will procure electricity in Austria exclusively from renewable energy sources. These measures will permanently reduce the Group's CO_2 footprint in Austria by more than 50%. Hence, the defined goal of reducing carbon dioxide emissions by 15% in three years has already been attained. In most of the other countries, this measure cannot yet be implemented as the options there are more limited to freely choose an electricity provider.

The 2011 report on the CO_2 footprint already shows a neutral electricity consumption balance. This was attained by acquiring RECS (Renewable Energy Certificate System) certificates. While this procedure is completely legal, it is nevertheless controversial from an ecological standpoint. Real reduction of CO_2emissions can be achieved only by switching to power coming from renewable sources.

Special emphasis will be given to reducing paper consumption at Erste Group, where employees use around 2,900 tonnes of copy paper annually. To date procurement has not always taken ecological criteria into account, a goal of environmental management is in future to use exclusively paper certified by the Forest Stewardship Council (FSC) or Programme for the Endorsement of Forest Certification (PEFC).

ECOLOGICAL IMPACT OF PRODUCTS AND SERVICES PROCURED (SUPPLY CHAIN)

The principal measure taken in 2011 was to develop ecological criteria for procurement procedures (e.g. for IT and office furniture). A catalogue of questions was created for Erste Group procurement tenders which addresses whether and to what extent suppliers observe ecological criteria in their production processes.

ECOLOGICAL IMPACT OF BANKING SERVICES

As one of the largest financial services providers in Central and Eastern Europe, Erste Group also has an indirect influence over the development of society and the environment through its funding of customers' activities. Therefore, in a first step, principles for responsible financing were developed in 2011 for the energy sector. Financing is provided only for projects meeting defined environmental and social criteria. Further guidelines for socially, ecologically and ethically sensitive sectors are currently being prepared.

FURTHER ACTIVITIES

In all of Erste Group's markets, numerous environmental projects were continued or initiated in accordance with Group guidelines and harmonised to match implementation priorities.

In Vienna, a step was taken towards achieving CO_2 neutrality in employee mobility. Five e bicycles are now available as alternative means of transport for moving between individual locations of Erste Group within the city.

Green IT: IT accounts for a substantial share of electricity consumption at Erste Group. Working with the companies CITEM and Grothusen, a mobile measurement device was developed according to the specifications of sIT Solutions (Erste Group's central IT provider). This technical innovation facilitates testing individual components in a live operating environment. The bank is thus enabled to take energy efficiency properly into account when selecting new servers without relying solely on the consumption data provided by manufacturers. sIT Solution's goal is to reduce electricity consumption at the data center in Vienna by 20% within five years.

Česká spořitelna extended its 'Green Mouse Employee Contest', an initiative to decrease paper consumption.

Banca Comercială Română continued its efforts to use resources efficiently. The bank expanded its range of paper-free solutions and services, such as through e-banking. Plans call for reducing paper consumption by promoting electronic account statements. Even in-house the impact can be substantial, as roughly 7,000 employees still receive their account statements in print (which translates into approximately 340,000 printed pages each year). During 2011, around 383 cubic meters of paper were recycled at its six headquarters buildings.

Erste Bank Croatia offers special environmental loans (so-called 'eco loans') for retail and corporate clients. Examples of consumer eco-loans include the funding of energy-saving renovations or renewable energy technologies for housing. Employees of Erste Bank Croatia started a PET plastic packaging collection initiative to support a local non-government organisation committed to providing work therapy for people with mental disabilities.

Erste Bank Serbia again focused on promoting the importance of investing into renewable energy sources and recycling. The bank recycled office paper (34.6 t), empty toner cartridges (823) and electronic IT equipment (1,990 kg in total, including computers, monitors, printers, UPS devices, telephones, as well as computer network and communication equipment). Its measures included printing of publications on FSC-certified paper (made using pulp sourced from environmentally audited forests).

MEDIUM-TERM PRIORITIES

Climate protection and energy: Continual improvement of energy efficiency at all company locations and branches, vehicle fleet management in line with environmental protection and ecological principles, fewer business trips, and increased use of renewable energy sources

Ecological construction methods: Application of sustainability standards in renovating buildings and constructing new ones

Green IT: Energy- and resource-efficient software solutions, implementation of internal rules for purchasing sustainable hardware, redesigning the data centre for low resource consumption, continuous optimisation of IT processes

Resources and waste management: Installation of electronic document administration, optimisation of internal waste separation, employee information and training on the subject of waste management

Sustainable business procedures: Definition of criteria for sustainable financing and investment, participation in international agreements

Product development: Focus on sustainability

Environmental sponsoring: Selected projects with reference to Erste Group's core business and regional focus

ENVIRONMENTAL DATA

The environmental data reporting was improved in 2011. For the first time data was provided by all Austrian entities of Erste Group. The information thus covered 6,982 employees, compared to just 4,450 in 2010.

Plans call for expanding the environmental database further in 2012 and to bring data up to the same level of quality for all countries.

Environmental effects of banking operations in Austria were quantified according to the Global Reporting Initiative standards and Greenhouse Gas Protocol of the World Business Council for Sustainable Development.

Environmental indicators Austria*

	2011	2010	2009
Flight distance (km per employee)	1,322	1,874	2,174
CO_2 emissions (tonnes per employee)	2.03	1.78	1.89
Copy paper consumption (kg per employee)	37.5	42.8	41.4
Recycling rate (%)	**	72.6	70.5
Electricity consumption (kWh per employee)	5,699	3,637	4,322
Heat energy consumption (kWh per m2)	108.3	88.7	79.7
Waste (kg per employee)	218	278	206

* In case of availability of more accurate data,historic data was adjusted.
** not available yet

In 2011, Erste Group was successful in reducing waste per employee (−21.6%) and copy paper consumption per employee (−12.7%). The rise in electricity consumption – and consequently also of CO_2 emission per employee – is due to inclusion for the first time of the data center. Almost 50% of total electricity consumption relates to Erste Group's data center in Vienna. Excluding the data centre, the CO_2 emissions per employee declined by 10% to 1.6 tonnes per employee.

Erste Group's CO_2 emissions in 2011 totalled 14,191 tonnes, of which 8,357 tonnes, or 58.9%, were due to electricity consumption. This reflects not only the electricity consumption itself but also a change in CO_2 labelling by Erste Group's energy provider. According to Energie-Control Austria, that label value increased from 413 g CO_2/kWh to 717 g CO_2/kWh.

Total energy consumption 2011

in MWh	Electricity	District Heating	Gas
Austria	39,794	11,713	7,979
Czech Republic	66,730	31,224	26,324
Hungary	4,762	1,510	2,963
Romania	36,323	5,083	55,005
Slovakia	19,113	911	17,931
Croatia	10,130	1,003	2,482
Serbia	2,926	*	93
Ukraine	4,141	1,716	2,525

* data not available

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 2011

CODE OF CORPORATE GOVERNANCE

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

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

COMMITMENT TO COMPLY WITH THE RULES OF THE AUSTRIAN CCG

(C rule 61 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 2011, Erste Group Bank AG complied with all L rules (legal requirement) and R rules (recommendation). The deviation from two “Comply or Explain” rule (C rules) is presented and explained below.

Qualification and Composition and Independence 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. Ahead of the elections to the supervisory board in the general meeting 2010, Mr. Rasinger was elected to be a representative of private shareholders as a result of a selection process.

57 (C) Supervisory board members who are on the management board of a listed company must not exercise more than a total of 4 supervisory board mandates (chairmanship counts as double) in external limited companies. Companies included in the consolidated financial statements or in which there is a business involvement are not considered as being group external limited companies.

Juan Maria Nin Génova, as a member of the management board of the listed company CaixaBank S.A., held five supervisory board mandates in group external limited companies in the 2011 financial year. The stock exchange listing of the CaixaBank S.A., in which he is acting as a member of the management board, only took place in 2011 after he had taken up his supervisory board mandates.

INFORMATION IN ACCORDANCE WITH THE SUSTAINABILITY REPORTING GUIDELINES

The sustainability reporting guidelines define standards for the improvement of the reporting and disclosure requirements. Publisher of these guidelines is the non-governmental organisation Global Reporting Initiative" (www.globalreporting.org).

Governance structure

Erste Group Bank AG has as a two-tier governance structure with management board and supervisory board as management bodies.

Mechanisms for shareholders and employees to provide recommendations or direction to the supervisory board

The DIE ERSTE österreichische Spar-Casse Privatstiftung (Privatstiftung) is accorded the right by the articles of association (Point 15.1) to delegate up to one third of the members of the supervisory board to be elected by the general meeting. The Privatstiftung has not yet exercised this right.

The employees' council, according to the legal stipulations and the articles of association, is authorized to delegate up to one third of the members for the supervisory board to be elected by the general meeting. In the financial year 2011, six members represented the interests of the employees in the supervisory board of Erste Group Bank AG.

Measures in place for the supervisory board to ensure conflicts of interest are avoided

The members of the supervisory board are made to annually consider the regulations of the Austrian Corporate Governance Code regarding conflicts of interest. Furthermore, new members of the supervisory board receive comprehensive information regarding the avoidance of conflicts of interest when taking up their supervisory board functions.

INFORMATION ON THE MANAGEMENT BOARD

(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 (C rule 16 Austrian CCG)

Andreas Treichl (Chairman)
Born 1952
Member of the management board since 1 October 1994
End of the current period of office: 30 June 2017

Franz Hochstrasser (Vice Chairman)
Born 1963
Member of the management board since 1 January 1999
End of the current period of office: 30 June 2017

Herbert Juranek
Born 1966
Member of the management board since 1 July 2007
End of the current period of office: 30 June 2017

Gernot Mittendorfer
Born 1964
Member of the management board since 1 January 2011
End of the current period of office: 30 June 2017

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 01 November 2006
End of the current period of office: 30 June 2012

Manfred Wimmer
Born 1956
Member of the management board since 01 September 2008
End of the current period of office: 30 June 2017

* The mandates of the members of the management board Martin Škopek and Bernhard Spalt were terminated by mutual agreement, effective as of 31 January 2012. The number of management board mandates was thus reduced to five from previously seven.

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)
Sparkassen Versicherung AG Vienna Insurance Group

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

Herbert Juranek
None

Martin Škopek
None

Bernhard Spalt
None

Manfred Wimmer
Österreichische Galerie Belvedere

Gernot Mittendorfer
Oesterreichische Kontrollbank Aktiengesellschaft

INFORMATION ON THE SUPERVISORY BOARD

(section 243b par. 2 Austrian Commercial Code)

Name, year of birth, occupation and date of initial appointment and end of current period of office of each member of the supervisory board (C rule 58 Austrian CCG)

Position	Name	Year of birth	Occupation	Date of initial appointment	End of the current period of office
Chairman	Heinz Kessler	1938	General Director, ret.	26.05.1998	AGM 2012
1.Vice Chairman	Georg Winckler	1943	Former rector of the University of Vienna and Professor of Economics	27.04.1993	AGM 2015
2.Vice Chairwoman	Theresa Jordis	1949	Attorney at law	26.05.1998	AGM 2013
Member	Bettina Breiteneder	1970	Entrepreneur	04.05.2004	AGM 2014
Member	Elisabeth Gürtler	1950	Entrepreneur	26.05.1998	AGM 2015
Member	Jan Homan	1947	General Manager Constantia Teich GmbH	04.05.2004	AGM 2014
Member	Brian D. O'Neill	1953	Vice Chairman Lazard International	31.05.2007	AGM 2012
Member	Juan Maria Nìn Génova	1953	Vice Chairman and CEO CaixaBank	12.05.2009	AGM 2014
Member	Wilhelm Rasinger	1948	Consultant	11.05.2005	AGM 2015
Member	Friedrich Rödler	1950	Auditor and tax advisor	04.05.2004	AGM 2014
Member	John James Stack	1946	President and CEO, ret.	31.05.2007	AGM 2012
Member	Werner Tessmar-Pfohl	1942	Entrepreneur, ret.	06.05.2008	AGM 2013
Delegated by the employees council					
Member	Christian Havelka	1966		31.10.2001	21.11.2011
Member	Markus Haag	1980		21.11.2011	until further notice
Member	Andreas Lachs	1964		09.08.2008	until further notice
Member	Friedrich Lackner	1952		24.04.2007	until further notice
Member	Bertram Mach	1951		09.08.2008	until further notice
Member	Barbara Smrcka	1969		09.08.2008	until further notice
Member	Karin Zeisel	1961		09.08.2008	until further notice

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

Name	Construction Committee	Nomination and Remuneration Committee	Audit Committee	Risk Management Committee	Strategy Committee
Heinz Kessler	Member	Chairman	Chairman	Member	Chairman
Georg Winckler	-	Member	Vice Chairman	Member	Vice Chairman
Theresa Jordis	-	Member	Member	Member	Member
Bettina Breiteneder	Chairwoman	-	Substitute	Member	-
Elisabeth Gürtler	-	-	-	Substitute	-
Jan Homan	-	-	Member	Substitute	Member
Brian D. O'Neill	-	-	-	-	-
Juan Maria Nìn Génova	-	-	-	-	Member
Wilhelm Rasinger	-	-	Member	Member	Substitute
Friedrich Rödler	Member	Member	Member	Chairman	Member
John James Stack	-	-	-	-	-
Werner Tessmar-Pfohl	Member	-	-	-	-
Delegated by the employees council					
Christian Havelka (from 31.10.2001 to 21.11.2011)	-	-	Member	Substitute	Member
Markus Haag (since 21.11.2011)	-	-	Substitute	Substitute	Member
Andreas Lachs	-	-	Member	Member	Substitute
Friedrich Lackner	Member	Member	Member	-	Member
Bertram Mach	-	Member	-	Member	Member
Barbara Smrcka	Member	-	Member	-	-
Karin Zeisel	-	Substitute	-	Member	-

Mandates in supervisory boards or similar functions in other foreign and domestic companies for each supervisory board member with reference date 31 December 2011 (listed companies are marked with *) (C rule 16 Austrian CCG)

Heinz Kessler
Austria Versicherungsverein auf Gegenseitigkeit Privatstiftung (Vice Chair)
Česká spořitelna, a.s.
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)
Educational Testing Service (ETS) (Trustee)
UNIQA Versicherungen AG* (Vice Chair)

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

Bettina Breiteneder
ZS Einkaufszentren Errichtungs- und Vermietungs-Aktiengesellschaft
Austria Versicherungsverein auf Gegenseitigkeit Privatstiftung

Elisabeth Gürtler
ATP Planungs- und Beteiligungs-Aktiengesellschaft (Vice Chair)
Chokoladefabriken Lindt & Sprüngli AG (Administrative Board)
Oesterreichische Nationalbank
Österreich Werbung
Wiener Kongresszentrum Hofburg Betriebs GmbH

Jan Homan
Allianz Elementar Versicherungs-Aktiengesellschaft
Constantia Flexibles GmbH (Chair)
Drukkerij Verstraete
Alfred Umdasch Privatstiftung
European Aluminium Foil Association (Chair)
Globalpack Mexico
Flexible Packaging Europe (Chair)

Brian D. O'Neill
Council of the Americas (BoD)
Emigrant Bank (BoD)
Inter-American Dialogue (BoD)

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

Wilhelm Rasinger
S IMMO AG*
Wienerberger AG*

Friedrich Rödler
Erste Bank der oesterreichischen Sparkassen AG

John James Stack
Ally Financial Inc.* (BoD)
Mutual of America* (BoD)
CERGE-EI (BoD)

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

Christian Havelka
None

Markus Haag
None

Andreas Lachs
None

Bertram Mach
None

Barbara Smrcka
None

Karin Zeisel
None

INDEPENDENCE CRITERIA DEFINED BY THE SUPERVISORY BOARD
(C rule 53 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 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 which members of the supervisory board meet the criteria of C rule 54 Austrian CCG

Until November 2011, four members of the supervisory board held a function on a body of a company that owns over 10% of the shares in Erste Group Bank AG (Kessler, Winckler, Lackner, Nin). Since November 2011, only three members of the supervisory board, as the CaixaBank S. A. – whose CEO is Nin – fell below the 10 % threshold at this time; 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)

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 156,266.76 in 2011. 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 142,095.14 in 2011.

INFORMATION ON THE SELFEVALUATION OF THE SUPERVISORY BOARD
(C rule 36 Austrian CCG)

The supervisory board annually considers the efficiency of its work, in particular with its organisation and working methods (Supervisory Board meeting on 14 September 2011).

INFORMATION ON THE WORKING METHODS OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD
(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
(C rule 16 Austrian CCG)

As of 31 December 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, Employees' Council

Franz Hochstrasser (Vice Chairman)

Group Capital Markets, Group Research, Group Balance Sheet Management

Herbert Juranek

Group Organisation/IT, Group Operations/Markets, Group Property Management and Services, Group Operations Retail and Corporate

Martin Škopek

Group Retail Business Development, Wealth Creation and Group-Private Banking, Group Card Management, Group Retail Management Information System

Gernot Mittendorfer

Erste Group Immorent Client Industries and Infrastructure, Group Investment Banking, Group Large Corporates Banking, Corporate Support and Operations, Group Public Sector, Group Corporate Investment Banking Portfolio 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

As of 1 February 2012

Andreas Treichl (Chairman)
Strategy & Participation Management, Group Secretariat, Group Communications, Group Investor Relations, Group Human Resources, Group Audit, Group Marketing, Employees' Council, Group Retail

Franz Hochstrasser (Vice Chairman)
Group Capital Markets, Group Research, Group Investment Banking, Group Large Corporates Banking, Steering & Services, Erste Group Immorent Client Industries and Infrastructure

Herbert Juranek
Group Organisation/IT, Group Operations/Markets, Group Operations Retail and Corporate, Group Services

Gernot Mittendorfer
Group Strategic Risk Management, Group Corporate Risk Management, Group Retail Risk Management, Group Corporate Workout, Group Compliance Legal & Security

Manfred Wimmer
Group Accounting, Group Performance Management,
Group Balance Sheet Management

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

The supervisory board has set up a risk management committee, a strategy committee, an audit committee, a nomination and remuneration committee 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 to credit institutions exceeds 10% of the own funds of Erste Group Bank or if the investment amounts to at least 10% of the consolidated own funds of the banking group. Within the competence assigned to it, the committee may grant advance approvals to the extent permitted by law. In addition, it is responsible for the supervision of the risk management of Erste Group Bank AG.

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

Audit committee
The audit committee is responsible for the supervision of the accounting process; the supervision of the effectiveness of the internal controlling system, the internal audit system and the risk management system; the supervision of the annual audit and the annual group audit; reviewing and supervising the qualification and the independence of the auditor (group auditor); reviewing and preparing the approval of annual financial statements, the proposal for the 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 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 par. 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.

Nomination and remuneration committee

According to rule 43 of the Austrian CGC the remuneration committee in Erste Group Bank is identical with the nomination committee and has been named "Remuneration and nomination committee". The remuneration and nomination committee deals with the contents of employment contracts for members of the management board and decides on relationships between the company 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. In addition, the remuneration and nomination committee approves the general principles of the remuneration policy and monitors the remuneration practices and compensation related incentive structures.

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

(C rule 36 Austrian CCG)

Six meetings of the supervisory board were held in the financial year 2011.

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 future banking supervisory regime at European level (Basel 3/CRD IV) and its implications for Erste Group.

On 18 March 2011, the financial statements and management report 2010, the consolidated financial statements and management report 2010 as well as the corporate governance report 2010 were audited; the financial statements 2010 were adopted in accordance with the recommendation of the audit committee, and the proposal for the distribution of the profit 2010 approved. Furthermore, the management board was authorized to carry out negotiations with regard to acquisition of additional shares in BCR, the Romanian subsidiary of Erste Group. Also, a change of the current trademark and the retail strategy were discussed.

At the constituent meeting on 12 May 2011 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 22 June 2011, the annual compliance report, the report on major participations for 2010 and the 1st quarter of 2011, and the strategy for corporate business were discussed, among other items on the agenda.

On 14 September 2011, the go-ahead for the commissioning of the construction work on the "Erste Campus", the new corporate head office in Vienna, was given. Furthermore, the results of the self evaluation 2010/2011 of the supervisory board and the refinancing situation of Erste Group were discussed.

In the joint, extraordinary meeting of the management and supervisory boards on 10 October 2011, the various measures by Erste Group in connection with the sovereign debt crisis in Europe were discussed, approved by the management board and announced to the supervisory board. The measures in particular concerned goodwill amortisations in Hungary and Romania, the uniform group-wide application of the effective interest method and the CDS-portfolio. Due to the volatilities in the financial and capital markets, the management of Erste Group has analysed the existing portfolio of Credit Default Swaps (CDS), which are held in the business unit International Business, with regard to the business orientation of Erste Group. Based on this analysis, Erste Group has retroactively adjusted the financial reporting for these instruments, which in previous periods were accounted as financial instruments. As a result of this, these instruments will henceforth be accounted and rated as financial instruments, at fair value through profit and loss. Because of the significantly deteriorated forecast for the economies of the euro area, but also as a precautionary measure, the premature repayment of the public share of the participation capital was deferred by at least one year.

On 14 December 2011, the budget and the investment plan 2012 of Erste Group Bank AG were approved and the Group projections for 2012 were presented. At the centre of discussions was the capital planning with regard to achieving the core capital ratio of 9 % as required by the European Banking Authority. A further item on the agenda was to approve changes in the structure of the management board, on recommendation of the nomination and remuneration committee. As from the supervisory board's point of view, stronger management focus should be put on the subsidiaries of Erste Group in Hungary and Romania, it was decided that two members of the management board, Bernhard Spalt und Martin Škopek, would take over management board duties in Erste Bank Hungary and in BCR, respectively. The mandates for the other five members were extended for additional five years, at which Andreas Treichl was appointed chairman and Franz Hochstrasser vice chairman. Also, the new distribution of the agendas resulting from these changes, effective as of 1 February 2012, was discussed. Furthermore, directors dealings were reported on and the annual report on large exposures presented.

INFORMATION ON THE NUMBER OF MEETINGS OF COMMITTEES DURING THE REPORTING YEAR AND REPORT ON THEIR ACTIVITIES

(C rule 39 Austrian CCG)

The risk management committee held seventeen 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 various civil disputes, the new concept in the field of group compliance, the preparation for and results of the EU stress test, the fraud case in the UBS regarding the illegitimate trade in securities and the requirements of the European Banking Authority with regard to the 9 % core capital ratio for systemically relevant banks.

Also, the risk management committee reported extensively on the situation in Erste Hungary Leasing, the Hungarian leasing subsidiary. In the committee meetings as from September, the disputed law passed by the Hungarian Parliament was regularly reported on, which makes possible early repayment of mortgage collateralized foreign currency loans at a fixed exchange rate, which is considerably more favourable than the current rate in the currency markets. As a result of the decisions made at the joint meeting of the management and supervisory boards on 10 October 2011, the accounting treatment of the CDS-portfolio in Erste Group was discussed in several meetings of the risk management committee.

The strategy committee met four times in 2011. New regulatory developments at European and national level (Basel 3/CRD IV and sustainable business models) were reported on. A recurring topic was the complex situation triggered by the Euro crisis and its ramifications on Erste Group. Furthermore, the state of the negotiations for the acquisition of additional shares in the Romanian subsidiary bank BCR was reported on. In the committee meeting on 15 June 2011, the participations report was discussed.

The audit committee met four times in 2011. 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 an additional (Group) auditor for the financial year 2012. 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 2010 was acknowledged. The head of the internal audit department reported on the areas audited and the key findings of the audit for the year 2010 and explained the audit plan for 2011. In the committee meetings on 24 February 2011 and 5 December 2011, the internal audit department presented its report pursuant to section 42 paragraph 3 Banking Act. At the meeting on 5 December 2011, 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 2013. Furthermore, in the meeting on 5 December 2011, the handling of the CDS and the measures on their reclassification adopted by Erste Group on 10 October 2011 were discussed. In the same meeting, the results and measures with regard to a fraud case in Erste Hungary Leasing, the Hungarian leasing subsidiary, was discussed at length.

The remuneration and nomination committee met four times in 2011. In its meetings, the remuneration policy of Erste Group and its subsidiaries was discussed, which was compiled in the course of 2011 and finally approved in the meeting on 14 December 2011. Furthermore, in the meetings of the remuneration and nomination committee, changes to the structure in the management board were prepared and discussed. These consisted of, on the one hand, terminating the management board mandates of Bernhard Spalt and Martin Škopek by mutual agreement in order to allow them to take up work for a certain period of time in those subsidiaries in which there is a difficult situation, Erste Bank Hungary and BCR, and on the other hand to extend the mandates of the other five members of the management board for another five years.

The construction committee met three times in 2011. The main topics discussed were project plan, project organisation, budget and costs, procedure for tenders, deadlines and connected developments for "Erste Campus", the planned new headquarters of Erste Group at the future central station in Vienna. In its meeting on 13 September 2011, the construction committee decided to recommend the supervisory board to give the go-ahead for the commissioning of the construction work.

MEASURES TO PROMOTE WOMEN ON MANAGEMENT BOARDS, SUPERVISORY BOARDS AND IN MANAGING POSITIONS

(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. 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 prolonging 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 systematic approach of succession pooling and group-wide development programmes is being further pressed ahead with, following the example of Česká spořitelna, which was elected Diversity Employer of the Year.

Differences and discrimination in salaries between male and female employees are well below the Austrian average. In some departments, these differences have already been overcome.

DISCLOSURE OF INFORMATION ON THE REMUNERATION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

Remuneration of the management board
(C rules 30 and 31 Austrian CCG)

Salary for the financial year 2011

in EUR thousand	Fixed salaries	Other compensation	Performance-linked cash component for the FY 2011	Total FY
Andreas Treichl	1,242.3	463.2	0.0	1,705.6
Franz Hochstrasser	621.2	148.3	0.0	769.4
Bernhard Spalt	621.2	60.4	0.0	681.5
Herbert Juranek	621.2	60.3	0.0	681.5
Manfred Wimmer	621.2	161.1	0.0	782.2
Martin Škopek	660.0	130.1	0.0	790.1
Gernot Mittendorfer	600.0	54.5	0.0	654.5
	4,987.0	**1,077.8**	**0.0**	**6,064.8**

There will be no performance-linked compensation to the management board for the 2011 financial year.

The item 'other compensation' includes pension fund contributions (at severance payments – new) and various other forms of compensation.

Payouts for previous years

Since the 2010 financial year, the variable part of the compensation to the management board is distributed over five years as according to the legal regulations and only paid out under specific conditions.

In keeping with the terms of the Long-Term Incentive-Programm (LTI) from 2007, a payout was made in 2011 for 2010. Beginning with 1st January 2010, a Long-Term Incentive-Programme was again introduced. Like the previous programme which has now expired, 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. For the share equivalents awarded for the year 2010, the first-time payout can be made in 2012, following a one-year retention period.

In connection with the measures for the strategic strengthening of the bank, the management board has paid back performance-linked compensation for the year 2010 to the amount of EUR 585 thousand and relinquished claims for performance-linked compensation for the year 2010 to the amount of EUR 1,340 thousand, which would have been due in the years 2012–2016. This relinquishment is considered in the following table.

Performance-linked compensation paid out in the financial year 2011

in EUR tsd	LTI programme 2007	LTI programme 2010	For the FY 2010
Andreas Treichl	284.7	0.0	490.7
Franz Hochstrasser	71.2	0.0	320.0
Bernhard Spalt	71.2	0.0	134.9
Herbert Juranek	71.2	0.0	126.6
Manfred Wimmer	0.0	0.0	128.4
Martin Škopek	0.0	0.0	104.8
Gernot Mittendorfer	0.0	0.0	0.0
	498.3	**0.0**	**1,305.4**

In addition to the aforementioned performance bonus, the beneficiaries received a total of 43,529 share equivalents of Erste Group Bank AG (Andreas Treichl 16.362, Franz Hochstrasser 10.671, Bernhard Spalt 4.497, Herbert Juranek 4.223, Manfred Wimmer 4.283, Martin Škopek 3.493, Gernot Mittendorfer 0 share equivalents). Valuation is based on the average, weighted daily share price of Erste Group Bank AG in 2011, which was EUR 25.37. Pay-outs will be made in 2012 after a one-year retention period.

The performance-linked compensation of the member of the management board deceased in 2010 Johannes Leobacher in the amount of EUR 1,207,500 was accounted for in May 2011.

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 management board members the corresponding compensatory payments are made to the pension fund.

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

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

Directors and officers insurance

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

Disclosure of remuneration paid to each member of the supervisory board in the financial year

(C rule 51 Austrian CCG)

in EUR thousand	Meeting fees for 2011	Supervisory board compensation for 2010	Total
Heinz Kessler	31.0	100.0	131.0
Georg Winckler	22.5	75.0	97.5
Theresa Jordis	25.5	75.0	100.5
Bettina Breiteneder	20.0	50.0	70.0
Elisabeth Gürtler	6.5	50.0	56.5
Jan Homan	9.0	50.0	59.0
Wilhelm Rasinger	23.0	50.0	73.0
Friedrich Rödler	30.0	50.0	80.0
Werner Tessmar-Pfohl	6.5	50.0	56.5
Brian D.O´Neill*	4.5	56.3	60.8
John James Stack	3.5	50.0	53.5
Juan Maria Nìn Génova	4.5	50.0	54.5
Markus Haag	3.0	0.0	3.0
Christian Havelka	9.0	0.0	9.0
Friedrich Lackner	17.0	0.0	17.0
Andreas Lachs	20.5	0.0	20.5
Bertram Mach	25.0	0.0	25.0
Barbara Smrcka	10.5	0.0	10.5
Karin Zeisel	15.0	0.0	15.0
	286.5	**706.3**	**992.8**

* Brian O'Neill was paid the remuneration for the supervisory board from the year 2007 of EUR 6,262.20 in arrears in 2011.

The general meeting 2011 granted the members of the supervisory board compensation in the amount of EUR 706,262.20 for the 2010 financial year, whereby the distribution of this compensation is at the discretion of the supervisory board. In addition, meeting fees are paid to the members of the supervisory board; these were set at EUR 1,000 per meeting of the supervisory board or one of its committees.

REPORT ON THE EXTERNAL EVALUATION
(R rule 62 Austrian CCG)

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 requirements of the Code. The summaries of the reports on these evaluations are available on the website of Erste Group Bank AG. A further external evaluation will be carried out in 2012 for the financial year 2011.

SHAREHOLDERS' RIGHTS

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

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

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

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

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

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

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

Stock corporations like Erste Group Bank AG must hold at least one shareholders' meeting per year (ordinary shareholders' meeting), which must be held within the first eight months of any business year and must cover at least the following issues:
_ Presentation of certain documents;
_ Distribution of the annual profit;
_ Grant of discharge to the members of the management board and supervisory board for the preceding business year.

Vienna, 29 February 2012

Management Board

Andreas Treichl mp
Chairman

Franz Hochstrasser mp
Vice Chairman

Herbert Juranek mp
Member

Gernot Mittendorfer 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 137. In addition, credit risk is analysed in detail in a separate section starting on page 27, 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 2011 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.