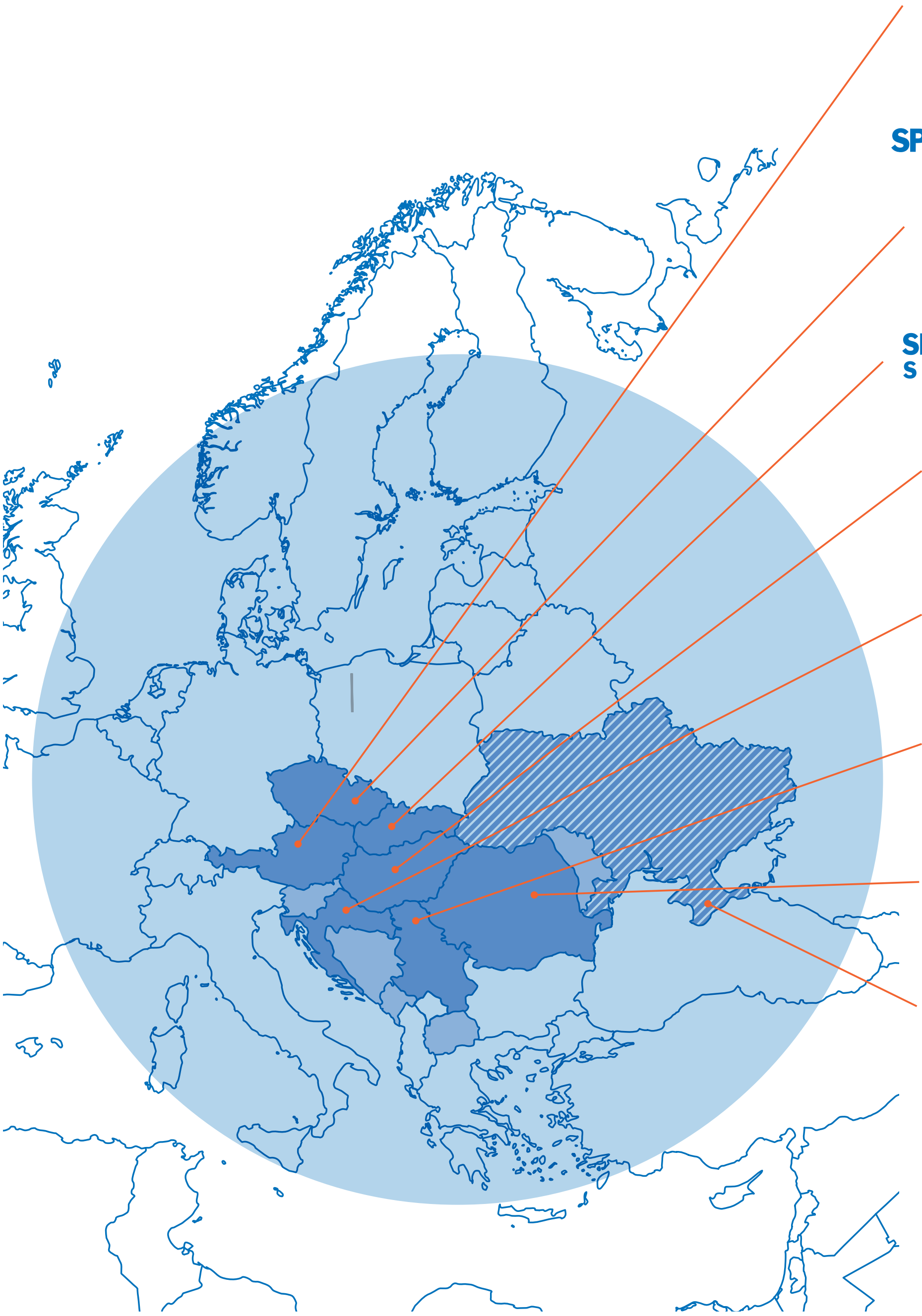
ERSTE GROUP

Annual Report 2012

2012

Extensive presence in Central and Eastern Europe



ERSTE BANK

AUSTRIA

Employees: 16,060
Branches: 254
Customers: 0.8 million

SPARKASSE

Branches: 744
Customers: 2.5 million

ČESKÁ SPOŘITELNA

CZECH REPUBLIC

Employees: 11,014
Branches: 658
Customers: 5.3 million

SLOVENSKÁ SPORITEĽŇA

SLOVAKIA

Employees: 4,185
Branches: 297
Customers: 2.4 million

ERSTE BANK Hungary

HUNGARY

Employees: 2,690
Branches: 141
Customers: 0.9 million

ERSTE BANK Croatia

CROATIA

Employees: 2,629
Branches: 150
Customers: 1.0 million

ERSTE BANK Serbia

SERBIA

Employees: 944
Branches: 68
Customers: 0.3 million

BCR

ROMANIA

Employees: 8,289
Branches: 623
Customers: 3.5 million

ERSTE BANK Ukraine

UKRAINE

Employees: 1,530
Branches: 120
Customers: 0.3 million

Key Financial and Operating Data *

in EUR million (unless otherwise stated)	2008	2009	2010	2011	2012
Balance sheet					
Total assets	**201,441**	**201,513**	**205,770**	**210,006**	**213,824**
Loans and advances to credit institutions	14,344	13,140	12,496	7,578	9,074
Loans and advances to customers	126,185	128,755	132,334	134,750	131,928
Risk provisions for loans and advances	-3,783	-4,954	-6,119	-7,027	-7,644
Securities, other financial assets	39,238	40,298	39,957	44,008	47,287
Other assets	25,457	24,274	27,102	30,697	33,179
Total liabilities and equity	**201,441**	**201,513**	**205,770**	**210,006**	**213,824**
Deposits by banks	34,672	26,295	20,154	23,785	21,822
Customer deposits	109,305	112,042	117,016	118,880	123,053
Debt securities in issue and subordinated capital	36,530	35,760	37,136	36,565	34,750
Other liabilities	9,839	11,721	14,906	15,596	17,861
Equity attributable to non-controlling interests	3,016	3,321	3,444	3,143	3,483
Equity attributable to owners of the parent	8,079	12,374	13,114	12,037	12,855
Changes in total qualifying capital					
Risk-weighted assets pursuant to section 22 Austrian Banking Act	103,663	106,383	103,950	97,630	90,434
Qualifying consolidated capital pursuant to sections 23 & 34 Austrian Banking Act	11,758	15,772	16,220	16,415	16,311
Tier 1 capital	7,448	11,450	12,219	11,909	12,223
Hybrid capital	1,256	1,174	1,200	1,228	375
Solvency ratio pursuant to section 22 Austrian Banking Act	9.8%	12.7%	13.5%	14.4%	15.5%
Core tier 1 ratio (total risk)	5.2%	8.3%	9.2%	9.4%	11.2%
Income statement					
Net interest income	4,913.1	5,220.9	5,439.2	5,569.0	5,235.3
Risk provisions for loans and advances	-1,071.4	-2,056.6	-2,021.0	-2,266.9	-1,980.0
Net fee and commission income	1,971.1	1,772.8	1,842.5	1,787.2	1,720.8
Net trading result	114.7	585.1	321.9	122.3	273.4
General administrative expenses	-4,001.9	-3,807.4	-3,816.8	-3,850.9	-3,756.7
Operating result	2,997.0	3,771.4	3,786.8	3,627.6	3,472.8
Pre-tax profit/loss	576.2	1,261.3	1,324.2	-322.2	801.2
Net profit/loss after minority interests	859.6	903.4	878.7	-718.9	483.5
Operating data					
Number of employees	52,648	50,488	50,272	50,452	49,381
Number of branches	3,147	3,205	3,202	3,176	3,063
Number of customers (million)	17.2	17.5	17.0	17.0	17.0
Share price and key ratios					
High (EUR)	49.20	31.15	35.59	39.45	24.33
Low (EUR)	13.25	7.00	25.10	10.65	11.95
Closing price (EUR)	16.20	26.06	35.14	13.59	24.03
Price/earnings ratio	6.0	10.9	15.1	na	19.6
Dividend per share (EUR)	0.65	0.65	0.70	0.00	0.40
Payout ratio	24.0%	27.2%	30.1%	0.0%	32.6%
Dividend yield	4.0%	2.5%	2.0%	0.0%	1.7%
Book value per share (EUR)	25.8	28.9	29.9	26.1	27.9
Price/book ratio	0.6	0.9	1.2	0.5	0.9
Total shareholder return (TSR)	-65.1%	64.9%	37.3%	-59.3%	76.8%
Number of shares					
Number of shares outstanding	317,012,763	377,925,086	378,176,721	390,767,262	394,568,647
Average number of shares outstanding	313,218,568	322,206,516	374,695,868	377,670,141	391,631,603
Market capitalisation (EUR billion)	5.1	9.8	13.3	5.3	9.5
Trading volume (EUR billion)	29.4	13.3	15.3	10.9	7.4

*) 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 2011.

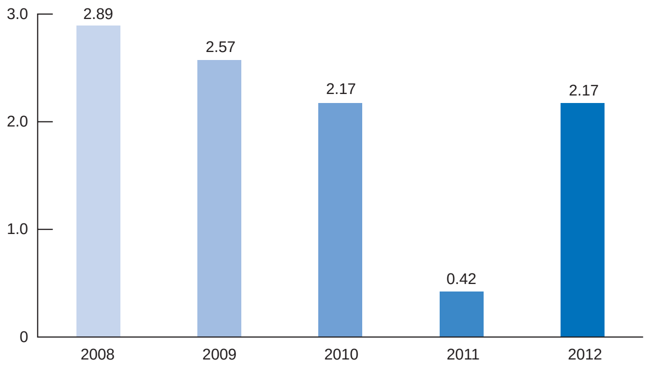
The dividend pay-out ratio represents dividends paid to owners of the parent (excluding dividends paid on participation capital) for the respective year divided by net profit for the period attributable to owners of the parent.

The term “net profit after minorities” corresponds to the term “net profit attributable to owners of the parent”.

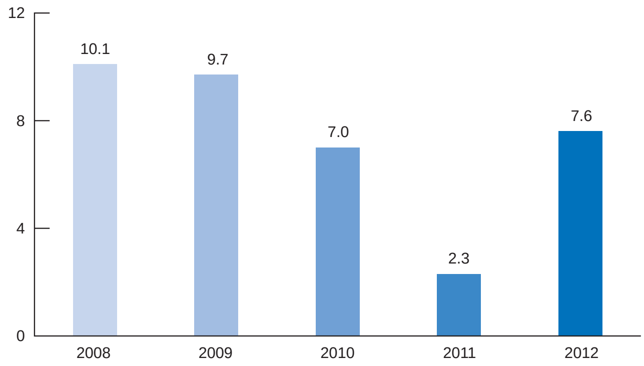
Shares outstanding include Erste Group shares held by savings banks that are members of the Haftungsverbund (cross-guarantee system).

Trading volume as reported by Vienna Stock Exchange.

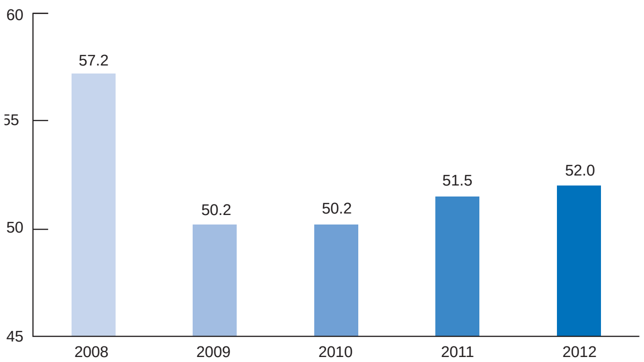
Cash earnings per share in EUR



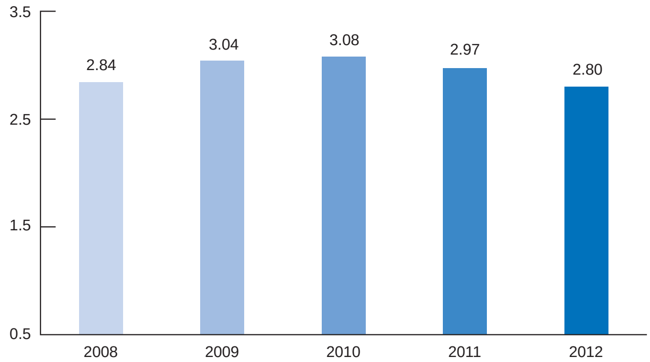
Cash return on equity (in %)



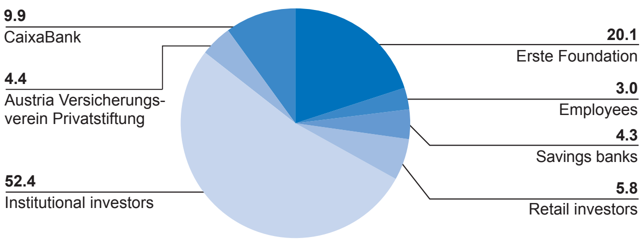
Cost/income ratio (in %)



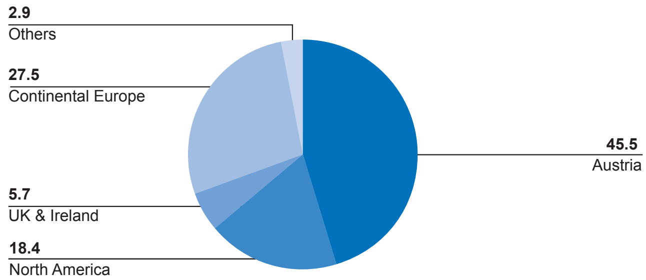
Net interest margin (in %)



Shareholder structure as at 31 December 2012 By investors (in %)



Shareholder structure as at 31 December 2012 By regions (in %)



Ratings as at 31 December 2012

Fitch	
Long-term	A
Short-term	F1
Outlook	Stable
Moody's Investors Service	
Long-term	A3
Short-term	P-2
Outlook	Negative
Standard & Poor's	
Long-term	A
Short-term	A-1
Outlook	Negative

Financial calendar 2013

Date	Event
29 April 2013	Q1 2013 results
16 May 2013	Annual General Meeting
22 May 2013	Ex-dividend day
24 May 2013	Dividend payment day
3 June 2013	Dividend payment day – Participation Capital
30 July 2013	H1 2013 results
30 October 2013	Q3 2013 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

_ Excellent cost performance
_ Cost/income ratio at 52.0%

Significant improvement in risk costs

_ NPL ratio at 9.2%, stabilising in second half-year
_ NPL coverage rose to 62.6% in 2012

Solid net profit despite one-offs

_ Dividend of EUR 0.4 proposed to AGM
_ Negative one-off effects of EUR 361 million

Excellent funding and liquidity position

_ Strong deposit base is key competitive advantage
_ Loan-to-deposit ratio at 107.2%
_ Successful retail and benchmark issues

Further improvement in capital ratios

_ Reduction of RWAs in non-core business
_ Core tier 1 ratio at 11.2% (Basel 2.5)

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Letter from the CEO

Dear shareholders,

Erste Group posted a net profit of EUR 483.5 million for the financial year 2012. At the same time, we raised the core tier 1 ratio significantly to 11.2% while lowering risk costs by almost 13%. This performance is highly satisfactory, particularly against the backdrop of a challenging economic environment, low interest rates, a steady rise in costs due to regulatory and political demands on the banking sector, and because net profit was also impacted by negative one-off charges in the net amount of EUR 361 million. Another positive factor was the undiminished inflow of deposits, a token of our customers' trust in Erste Group, which improved the loan-to-deposit ratio to approximately 107%. Loan demand remained subdued, which also contributed to this development. The bank's liquidity and funding positions remained excellent, enabling it to make early repayment of funds taken up under the ECB's long-term refinancing operations. We will, therefore, propose to the annual general meeting to pay a dividend in the amount of EUR 0.40 per share for the financial year 2012 and to pay interest on the participation capital, as we did in previous years.

Operating environment in 2012

Your bank – Erste Group – again had to operate in an environment during 2012 that was characterised by increasingly conflicting goals. Confronted by divergent demands from regulators, policymakers, the economic environment, customers, employees and owners, we strived to achieve the best balance possible. This was no easy undertaking, as we were faced last year with banking and financial transaction taxes of EUR 244 million before tax and EUR 187 million after tax while simultaneously being called upon to provide affordable loans. We were also faced with still-evolving capital adequacy and liquidity requirements which made it difficult for management to position the bank strategically, a weakening European economy that offers only limited growth prospects in 2013, customers who increasingly were moving their banking business to virtual platforms, employees who naturally valued job security, and owners who rightfully expected their bank to at least to earn the cost of capital over the medium term.

Let me discuss the general economic conditions in the reporting period in a little more detail. Over the course of 2012, the global economy gradually lost momentum and the euro zone even slipped into a mild recession. Whilst the region of Central and Eastern Europe was unable to escape this trend, developments varied by country: some, like the Czech Republic, Hungary, Croatia and Serbia, dipped back into a shallow recession. Overall, in 2012 real economic growth in Central and Eastern Europe ranged between 2.0% in Slovakia and -2.0% in Croatia. The export sector was again a major driver of economic activity in 2012. Accounting for a large share of total exports, the automotive industry made major contributions to economic performance in the Czech Republic, Slovakia, Romania and even Hungary. In Austria, the euro zone's debt crisis led to a contraction of foreign demand and impacted growth of domestic consumption. At 0.7%, economic growth in Austria nonetheless surpassed the euro zone average of -0.6%.

The Romanian economy, which is dominated largely by domestic trade, stagnated last but not least due to a poor harvest. In Croatia, the stable performance of the tourist industry was not sufficient to ward off a recession caused by sluggish exports and the impact on agriculture of bad weather conditions. The performance of the Hungarian economy was again influenced adversely by unorthodox government policies. Nonetheless, sovereign bond yields dropped to the lowest in a number of years. To stimulate economic growth, central banks across the region implemented further rate cuts. Over the medium to long term, however, comparatively lower public and private debt and generally strong economic fundamentals, such as lower current account deficits and rising net exports, will have a positive impact on the future development of EU states in Eastern Europe.

Net profit benefits from lower risk costs

Against this backdrop of a challenging operating environment, we did all we could in 2012 to compensate moderate declines in income through strict cost management. This offset was almost achieved as the operating result, at EUR 3.5 billion, was only slightly below the level of the previous year. The operating result reflected not only economic weakness in Central and Eastern Europe but also the targeted reduction of non-core activities, as we refocused on customer business in our core markets. Combined with very low interest rates, this brought a decline in net interest income. As the lending and securities businesses were generally subdued, net fee and commission income was down slightly, even though the trend reversed in 2012's fourth quarter on the back of a strongly improving securities business. The net trading result more than doubled to a normalised level after being impacted by negative valuations in 2011. At the same time, we continued to bring down costs. General administrative expenses were trimmed further despite rising inflation. With the headcount diminishing, mainly due to restructuring in Hungary and Romania, personnel expenses were also lower. The cost/income ratio was almost unchanged at 52%.

We also recorded a reduction in risk costs, which dropped below the EUR 2 billion mark for the first time since 2008 amid a substantial normalisation in Hungary and declines in all countries with the exception of Romania and Croatia. As a percentage of average customer loans, risk costs fell to 148 basis points. The item "other operating result" was influenced mainly by negative one-off effects, although the buyback of tier 1 and tier 2 instruments and the sale of real estate and financial assets resulted in positive one-off effects of EUR 323 million and EUR 56 million after tax, respectively. Negative impacts occurred due to goodwill adjustments (not affecting regulatory capital) of EUR 456 million after tax, banking levies in Austria, Hungary and Slovakia of EUR 187 million after tax, a loss of EUR 75 million from the sale of Erste Bank Ukraine, and restructuring costs in Romania in the amount of EUR 22 million after tax.

Broken down by segment, the most significant contributions to Erste Group's profitability came from the Czech Republic, Slovakia, Austria, and bond underwriting and trading. In Romania, BCR's management (newly appointed in early 2012) defined four priorities: to improve asset quality, increase operating income, optimise operating processes and focus on local currency lending. It also initiated sweeping restructuring measures. In Hungary, Erste Bank Hungary continued its restructuring and adjustment to the new operating environment.

Turning to the balance sheet, I want to comment on loans and advances to customers in addition to the previously mentioned increase in deposits. Loans and advances to customers declined slightly to EUR 131.9 billion. This was attributable to the planned reductions in the International Business and real estate business areas as well as to early repayments of loans in Hungary and the sale of Erste Bank Ukraine. CHF lending has fallen to 9.7% of the total loan book, supported by continuing efforts to convert CHF loans in Austria. The non-performing loan (NPL) ratio as a percentage of customer loans stabilised in the second half of the year and stood at 9.2% at year-end. The NPL coverage ratio rose to 62.2%. In the fourth quarter of 2012, the volume of NPLs declined in all countries except Croatia and Serbia. NPLs were also up slightly in the large corporate business. In the core markets of Austria, the Czech Republic and Slovakia, asset quality improved compared to the previous year.

Our liquidity position is likewise strong. Short-term funding requirements are more than covered by highly liquid assets, which make the bank independent of interbank funding. Evidence of Erste Group's attractiveness to bond investors can be seen in benchmark issues in various asset classes (Pfandbrief (covered), senior unsecured, and tier 2) as well as successful retail issues in a total volume of EUR 4.7 billion, with an average maturity of more than 7 years.

Best capital position since going public in 1997

In late February 2013, a fundamental political consensus was reached at the European level on new capital adequacy and liquidity standards for banks. The relevant EU directives CRR / CRD IV (Capital Requirements Regulation / Capital Requirements Directive IV) are expected to come into force in early 2014. The confirmation that the savings banks' minority capital will be recognised under the new regime is important for Erste Group. We are already well prepared to comply with the new rules. Core tier 1 capital (Basel 2.5) was improved substantially in 2012 to 11.2%, which is by far the best level since Erste Group's IPO in 1997.

Continuing focus on customer-based strategy

Unlike many other European banks, Erste Group was not forced to make major changes to its business model as a result of upheavals in the regulatory landscape. Erste Group's key strength has been, and continues to be, its strategy, which for the past 200 years has been built on long-lasting and stable customer relationships. Our clear commitment to banking in Austria and the eastern part of the European Union, coupled with our consistent focus on providing the best possible services to our retail, corporate and public sector customers will also ensure our future success.

I wish to thank not only all of our employees for their professional attitude and commitment during the past year, but also our customers and investors for the trust they place in us.

Andreas Treichl mp

Management Board

ANDREAS TREICHL

Appointed until June 2017
Born in 1952

Responsibilities:
Group Strategy & Participation Management
Group Secretariat
Group Communications
Group Investor Relations
Group Human Resources
Group Audit
Group Brands
Employees‘ Council

FRANZ HOCHSTRASSER

Appointed until June 2017
Born in 1963

Responsibilities:
Group Large Corporates Banking
Erste Group Immorent Client, Industries and Infrastructure
Group Capital Markets
Group Research
Group Investment Banking
Steering & Operating Office Markets
Steering & Operating Office Large Corporates/ Erste Group Immorent

MANFRED WIMMER

Appointed until June 2017
Born in 1956

Responsibilities:
Group Accounting
Group Performance Management
Group Asset Liability Management

HERBERT JURANEK

Appointed until June 2017
Born in 1966

Responsibilities:
Group Organisation/IT
Group Banking Operations
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
Erste Group Immorent Real Estate Risk Management
Group Risk Governance and Projects
Quantitative Risk Methodologies

Report of the Supervisory Board

Dear shareholders,

At the end of the Annual General Meeting on 15 May 2012, the long-standing chairman of the supervisory board, Heinz Kessler, and supervisory board member Elisabeth Gürtler resigned from the supervisory board. The number of shareholder representatives was reduced from twelve to ten. The supervisory board now consists of fifteen members: ten shareholder representatives and five employee representatives. I would like to thank Heinz Kessler and Elisabeth Gürtler for their commitment and dedication to Erste Group Bank AG.

In March 2012, the supervisory board set up a working group that dealt in several meetings with the organisation, the activities and the efficiency of the supervisory board and its committees (self-evaluation). The supervisory board discussed the working group's proposals and agreed with them on 27 June 2012. The proposals resulted in, among other things, the division of the nomination and remuneration committee into two separate committees, a realignment of tasks and powers of the other committees, new appointments of committee members, and a change to the rules of procedure. The strategy committee was dissolved and replaced by an executive committee. While topics of strategic significance are discussed in supervisory board meetings, the executive committee meets on an ad hoc basis at the supervisory board's request to prepare or pass resolutions on specific matters in meetings or by circular vote. The supervisory board is confident that these organisational changes will enable it to meet the increased demands being made on banks' supervisory bodies.

For details regarding the composition and independence of the supervisory board, the criteria for its independence, its working procedures, the number and type of committees and their decision-making powers, the meetings of the supervisory board and the main focus of its work, please refer to the corporate governance report drawn up by the management board and reviewed by the supervisory board.

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 2012 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 2012 Corporate Governance Report. The audit did not give rise to any qualifications. Representatives of both auditors attended the financial statements review meeting of the audit committee and the supervisory board and presented their comments on the audits they had conducted.

Based upon our own review, we endorsed 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 (Aktiengesetz). The management report, consolidated financial statements, group management report and Corporate Governance Report have been reviewed and accepted.

The supervisory board is of the opinion that the result of the financial year 2012 justifies the distribution of dividends and therefore endorses the proposal of the management board to recommend to the Annual General Meeting to pay a dividend both to holders of participation certificates and to shareholders.

For the supervisory board:

Friedrich Rödler mp
Chairman of the Supervisory Board
Vienna, March 2013

Erste Group on the Capital Markets

The continuing European debt crisis, political controversy over reducing the US government deficit, uncertainty about global growth and further interventions by major central banks were among the key factors driving financial markets developments in 2012. Despite the challenging environment and high market volatility, key stock exchange indices ended the year in positive territory. The shares of Erste Group posted an excellent performance, rising 76.8% year on year. This gain came on the back of solid profitability of the core business, declining risk costs and further strengthening of the capital base.

EQUITY MARKET REVIEW

Mostly strong index performances despite widespread crisis sentiment

The year 2012 was marked by substantial uncertainty as to impacts of the euro zone crisis on the development of the global real economy, on the one hand, and by interventions from governments and major central banks, on the other. Against this backdrop, the US Dow Jones Industrial Average Index rose 7.3% to 13,104.14 points. The broader Standard & Poor's 500 Index advanced by 13.4% to 1,426.19 points. Most European and Asian stock exchanges posted gains in the double-digit percentage range. The Euro Stoxx 600 Index, which is composed of the biggest European companies, was up 14.4%. Most European indices followed a similar trend, while the Spanish IBEX alone suffered a decline of 4.7%.

Interventions due to persistent European debt crisis

As signs of recession became evident in several euro zone countries, EU heads of state and governments as well as the European Central Bank (ECB) were prompted into action. In the third quarter, European leaders agreed to expand the euro's safety net by setting up the ESM (European Stability Mechanism) and establishing a single bank supervisor at the European Central Bank. Closely co-ordinating its policies with these measures, the ECB cut its key interest rate to 0.75% and announced unlimited purchases of sovereign bonds of distressed countries that apply for aid under the EFSF (European Financial Stability Facility) or the ESM and agree to implement strict reforms and austerity measures.

Mixed economic data triggered additional US central bank measures

Overall, the performance of the US economy was modestly positive in 2012. The real estate market – a key driver of the US economy – recovered visibly. The unemployment rate declined continuously through the second half of the year, but it remained far above the long-term average. The sluggish labour market caused the US central bank (Fed) to continue its highly accommodative monetary policy stance. The Federal Open Market Committee decided to keep the key federal funds rate at its historic low of zero to 0.25% at least until the unemployment rate falls below 6.5% and as long as the one-to-two-year inflation outlook does not exceed 2.5%. At the same time, the Fed announced the expansion of its programme for purchasing of long-term bonds. From January 2013 onwards, the Fed will buy monthly USD 40 billion worth of mortgage bonds and USD 45 billion in US treasuries.

Double-digit growth of the European banking index

Escalation of the European debt crisis and ratings downgrades for several pan-European banks caused yields of Spanish and Italian bonds to surge in mid-2012. Against this backdrop, European bank shares sustained significant losses in the second quarter. Only the ECB's announcement that it was willing to engage in unlimited secondary market purchases of sovereign bonds of European states applying for EFSF or ESM support put European bank shares onto a stable upward trend in the second half of the year. The Dow Jones Euro Stoxx Bank Index, which is composed of leading European bank shares, climbed to 112.36 points and, overall, gained 12.0% for the year.

ATX (Austrian Traded Index) posted a solid gain

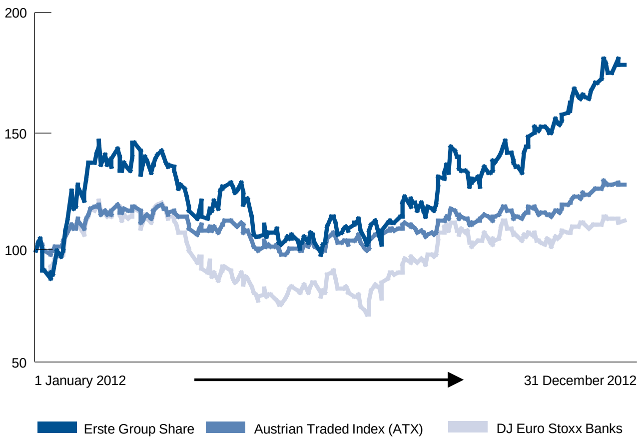
From 1,891.68 points at the beginning of 2012, Vienna's ATX rose to 2,401.21 points by the last trading day to gain 26.9% for the year. After a good start that lifted the index beyond the 2,200 mark in the first quarter, escalation of the European debt crisis forced the ATX sharply lower, especially in the second quarter. In the second half of the year, the agreements on further measures reached at the political level in Europe, the ECB intervention as well as solid corporate earnings supported a stable upward trend for the ATX. At year-end 2012, the index's market capitalisation stood at EUR 79 billion (2011: EUR 64 billion).

ERSTE GROUP SHARE

Erste Group share was best-performing ATX title

At year-end 2012, the shares of Erste Group were quoted at EUR 24.025, up 76.8% versus year-end 2011. After its strong start into the year, the Erste Group share was unable to decouple from the negative trend in international stock markets and lost some ground in the second quarter. In the second half, however, the share price rose on the back of a stable performance by the Group's core operations, lower risk costs and capital strength significantly surpassing the EBA requirements.

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



The Erste Group share price was further buoyed by positive the favourable assessment among the majority of investors and analysts regarding measures announced to achieve sustainable and substantial improvement in its Romanian operations and its continuous concentration on the core business. These factors combined to prompt the impressive rise in the Erste Group share price during 2012. At year-end, the share traded only slightly below its high of EUR 24.33 recorded on 27 December. Hence, the Erste Group share decidedly outperformed the ATX (+26.9%) and the DJ Euro Stoxx Bank Index (+12.0%).

Performance of the Erste Group share versus indices *

	Erste Group share	ATX	DJ Euro Stoxx Bank Index
Since IPO (Dec 1997)	116.8%	84.0%	-
Since SPO (Sep 2000)	104.5%	105.5%	-68.0%
Since SPO (Jul 2002)	37.9%	96.9%	-55.3%
Since SPO (Jan 2006)	-46.6%	-38.4%	-70.3%
Since SPO (Nov 2009)	-17.2%	-7.8%	-50.7%
2012	76.8%	26.9%	12.0%

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

Number of shares, market capitalisation and trading volume

In September 2011, Erste Group had signed an agreement with four regional Romanian investment funds – the Societatea de Investitii Financiare (SIF) – on the acquisition of an additional stake of 24.11% in BCR against payment of cash and issuance of new Erste Group shares in several tranches. The fourth tranche comprising 3,801,385 new shares was issued on 28 February 2012 and first listed on 23 March. All new shares of Erste Group are traded on the stock exchanges of Vienna, Prague and Bucharest. This deal increased the number of shares from 390,767,262 at the beginning of 2012 to 394,568,647 at year-end 2012.

Due to the share price gains, Erste Group's market capitalisation rose to EUR 9.5 billion at year-end 2012 from EUR 5.3 billion at 2011's close.

The trading volume of Erste Group shares was up slightly in the year. On average, 876,386 Erste Group shares were traded daily on the Vienna Stock Exchange during 2012 (2011: 867,676). Trading volume on the Prague Stock Exchange, where the shares of Erste Group have been listed since October 2002, was up versus the previous year to approximately 348,000 shares per day. On the Bucharest Stock Exchange, the average daily trading volume in Erste Group shares, which have been listed there since 14 February 2008, was 13,902 shares. Overall, the trading volume of Erste Group shares at these three stock exchanges account for approximately 45% of the total trading volume. More than half of the trading activity is executed over-the-counter (OTC) or through electronic trading systems.

Erste Group in sustainability indices

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

DIVIDEND

Erste Group's dividend policy has been guided by the bank's profitability, growth outlook and capital requirements. In view of the significantly improved earnings in 2012, on the one hand, and the still uncertain regulatory requirements, on the other, the management board of Erste Group will propose to the general shareholders' meeting to pay a dividend in the amount of EUR 0.40 per share for the financial year 2012 and to fully service the participation capital. The 8% dividend for 2011 on the participation capital of EUR 1.76 billion was paid on 31 May 2012.

SUCCESSFUL FUNDING

Constructive sentiment prevailed throughout much of the first quarter in 2012, with the ECB's first and second longer-term refinancing operations (known as LTRO) bringing temporary stability to the markets. Erste Group took advantage of good market conditions in January 2012 to issue a 10-year EUR 1 billion Hypothekenpfandbrief (amassing the largest-ever order book for an Austrian covered bond). Later, in March 2012, Erste Group issued a 5-year EUR 500 million senior bond. On top of these transactions, the positive market sentiment in October was used to issue a USD 500 million tier 2 bond followed by another EUR 500 million a few days later. The two transactions in combination with the buybacks of outstanding tier 1 and 2 instruments during 2012's first half improved the capital structure. The remaining funding needs were mostly covered via the retail channels, which contributed EUR 1.4 billion. The total amount funded in 2012 amounted to EUR 4.7 billion, and its average maturity of 7.2 years points to the successful continuation of longer dated issuances.

INVESTOR RELATIONS

Open and regular communication with investors and analysts

In 2012, Erste Group's management and the investor relations team met with investors in a total of 467 one-on-one and group meetings (2011: 439 meetings). Presentation of the 2011 annual result was followed by the annual analysts' dinner in London. After release of the first-quarter results, the spring road show was conducted in Europe and the US. A second road show was held in autumn following the release of third-quarter results. Erste Group presented its strategy in the current operating environment at international banking and investor conferences organised by Nomura, Citi, Wood, HSBC, Morgan Stanley, UBS, Deutsche Bank, Bank of America Merrill Lynch, Goldman Sachs, and RCB. In addition, the dialogue with bond investors was continued. At conferences, road shows and workshops, a large number of one-on-one meetings were held with analysts and portfolio managers.

On 16 April, the internet chat with Erste Group's CEO was held for the tenth 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.

At http://www.erstegroup.com/investorrelations comprehensive information on Erste Group and the Erste Group share is available. Investors and the broader public also can follow the investor relations team on the social media platform Twitter at http://twitter.com/ErsteGroupIR and on Slideshare at http://de.slideshare.net/Erste_Group. These sites provide users with the latest news on Erste Group in the social network. An overview of the Erste Group's social media channels is available at http://www.erstegroup.com/en/about-us/socialmedia.

As an additional service for investors and analysts, Erste Group launched free Investor Relations Apps for iPhone, iPad, and Android at the beginning of August. This application enables users to access and download Erste Group Bank AG share price information, the latest investor news, multimedia files, financial reports and presentations as well as an interactive financial calendar and contact details for the Investor Relations team. More details on this service and downloading are available at http://www.erstegroup.com/en/investors/IR_App.

At the end of June, Erste Group's investor relations team was cited for the second consecutive year as having the best investor relations performance of an Austrian company. More than 700 buy-side and sell-side analysts took part in the survey conducted by IR Magazine. Its outcome impressively underlined the investor relations team's success in focusing on "transparency and competent communication with investors as a top priority".

Analyst recommendations

26 analysts released periodic research reports about Erste Group during 2012, including one initial coverage analysis. The Erste Group Bank AG share was covered by financial analysts at the following national and international firms: Atlantik Ft, Autonomous, Bank of America Merrill Lynch, Barclays, Berenberg, Citigroup, Concorde, Credit Suisse, Cyrrus, Deutsche Bank, Exane BNP Paribas, Goldman Sachs, HSBC, ING, JP Morgan, KBW, Kepler, Macquarie, Mediobanca, Morgan Stanley, Nomura, RCB, SocGen, UBS, VTB Capital, and Wood. As of year-end, 54% of the analysts had issued buy recommendations (2011: 46%), 38% rated the Erste Group share neutral (2011: 42%), and 8% (2011: 12%) had sell recommendations. The average target price was EUR 22.32. The latest updates on analysts' estimates for the Erste Group share are posted at http://www.erstegroup.com/en/Investors/Share/AnalystEstimates.

Strategy

A 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. The business model also reflects the commitment to society as it pursues not only financial but also ecological and social goals. This strategic orientation was changed neither when Erste Group 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 Austria, Central Europe and the eastern part of the European Union. 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, our core activities evolved as well, from those of a savings bank focused on retail lending and deposit-taking into those of an international bank providing banking services to all sectors of the economy. In view of the increasing importance of electronic banking and digital distribution channels, we value not only direct contacts with our customers at the branch offices but also turn our attention to technological developments and innovations to meet our customers' expectations even more effectively.

In addition to the traditional strength in serving private individuals, our core activities also include advisory services and support for our corporate customers with regards to financing, investment, hedging activities and access to international capital markets. Public sector funding through investing parts of our liquidity into sovereign bonds issued in the core region is also part of our core activities. To meet the short-term liquidity management needs of our customer business, we also operate in the interbank market.

It is important to us to develop customer 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 at 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 our retail business but also to our large corporate and real estate business and to the serving of entities in the public sector. It applies equally to every country in which we operate. As we occupy very strong market positions in most of our markets, we have the attributes 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 Central and Eastern Europe, i.e. that part of Europe that offers the best structural and therefore long-term growth prospects. Many countries of Central and Eastern Europe have special ties to Austria, not only because of their geographical proximity but also due to a common cultural heritage. Their shared history was interrupted by the division of Europe after World War II but restored after the demise of the 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 Austria. That had been true also in terms of banking as the savings banks philosophy had spread across Central Europe.

Decades of a centrally planned 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 onwards acquired savings banks and financial institutions in countries adjacent to Austria.

We intend to be the leading bank between Germany and Russia in the medium to long term. Today, we operate 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 European Union in mid-2013. Following significant investments into our subsidiaries, we hold leading market positions in many of these countries and therefore focus on organic growth. In Serbia, which has been assigned European Union 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 European Union integration. Ukraine is not seeking European Union membership in the medium term, and therefore we do not regard it as a core market. In December 2012, Erste Group signed an agreement to sell Erste Bank Ukraine. The closing of the transaction is expected to occur in the first half of 2013. In addition to our core markets, we also hold 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 market business, we maintain additional presences in Poland, Turkey, Germany, and London. Our international business also operates branches in London, New York and Hong Kong which engage in lending and treasury business and whose strategic outlook has been shifted to focus on customer business.

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

The sustainability of our business model is reflected by a consistent operating performance through economic cycles which allows the absorption of higher risk costs in times of economic uncertainty. We create value by doing exactly what a customer-centred bank should do for the real economy: We use the money collected from depositors 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 has been rigorously eliminated by reducing activities that are not part of our core business or by realigning the core business. Consequently we will for instance 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 in the countries of Central and Eastern Europe. The only exceptions from this rule will be Croatia and Serbia, where the euro is widely used as a currency and customers not only take up loans in euro but also hold a significant part of their deposits in euro.

The same sustainable approach is employed in liquidity and capital planning. Due to our strong deposit business we have an altogether 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. Therefore, it is our aim 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 local deposits and funding on local capital markets.

THE STRATEGY IN DETAIL

The basis of our 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 Central Europe and 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

Our 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. This includes our focus on new technological developments and innovations that enable us to meet our customers' expectations even more effectively.

Our core competence in retail banking has historical roots. In 1819, wealthy Viennese citizens donated funds to establish Erste Group's predecessor, the first savings bank in Central Europe. It was their aim to bring basic banking services such as safe savings accounts and mortgage loans to wide sections of the population.

Today we serve a total of 17 million customers in our core markets and operate some 3,100 branches. In addition, we use distribution channels such as internet and phone banking. Wealthy private clients, trusts and foundations are served by our Private Banking staff and benefit from services that are tailored to the needs of this target group.

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 on 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 the same currency. We are in such a position of strength and will be guided by this aspect of the business model even more strongly in the 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, and Serbia.

Corporate business

The second main segment, which also contributes significantly to our earnings, is the business with small and medium-sized enterprises, regional and multi-national groups, and real estate companies. Our goal is to enhance the relationships with these clients beyond pure lending business. Specifically, in our core region, our goal is for corporate customers to choose Erste Group as their principal bank and also 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, we serve small and medium-sized enterprises 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 understanding 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 also focused on becoming the leading investment bank in our core region. In pursuit of this strategic goal, we established Capital Markets as a separate business unit within our group as early as 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 customers. The strategic significance of our 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.

Also in this business area, the clear focus of our work has always been on the needs of our customers: most importantly, our retail and corporate customers as well as government entities and financial institutions. Due to our organisation across countries 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, Romania, Hungary, Croatia and Serbia. For institutional customers, specialised teams have been established in Germany, Poland, Turkey and London which offer these customers a tailor-made range of products.

In many countries where we operate, the local capital markets are not yet as highly developed as in Western Europe or in the United States of America. That means we are pioneers in some of these markets. Therefore, building more efficient capital markets in our core region is another strategic objective of our Group Markets division, especially against the backdrop of new regulatory guidelines related to 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. We make a significant part of this liquidity available as financing to the region's public-sector entities. In this way, we facilitate, among other things, essential public-sector investment. Our public-sector customers are primarily municipalities, regional entities and sovereigns, whom we additionally support and advise in capital market issuances, infrastructure financing and project financing. Furthermore, we cooperate with supranational institutions.

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

Adequate transport and energy infrastructure and municipal services are absolute key prerequisites for a long-term sustainable economic growth. Therefore, we view infrastructure finance and all financial services associated with it to be of significant importance. From 2007 to 2013, the EU has made about EUR 100 billion available to the Czech Republic, Slovakia, Croatia, Hungary and Romania under a range of European funding programmes. In this context, our commitment to infrastructure development in Romania is to be highlighted. Our Romanian subsidiary Banca Comercială Română supports investment into 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 to ensure that the liquidity needs of our customer business are met. This involves, in particular, short-term borrowing and lending of liquid funds in the interbank market.

LONG-TERM GROWTH TRENDS IN CENTRAL AND EASTERN EUROPE

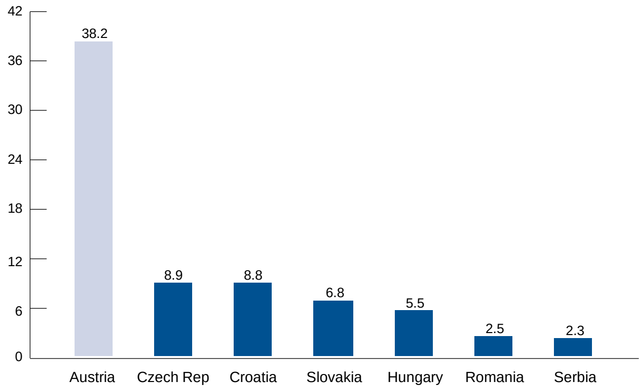
While the financial and economic crisis has slowed the economic catching-up process across the countries of Central and Eastern Europe, the underlying convergence trend continues unabated. This is on one hand due to the fact that the region has to make up for almost half a century of communist mismanagement of the economy and on the other hand due to the fact that banking activities were largely non-existent during that time. In addition, most countries of Central and Eastern Europe have human resources that are at least equivalent to those of Western European countries but need not struggle with the long-term unaffordable costs of the western welfare states and have labour markets that are considerably more flexible. These advantages are complimented by – on average – highly competitive export industries which benefit from wage costs that are extremely low relative to workforce productivity and from investor-friendly tax and welfare systems. Over the upcoming 15 to 20 years, these countries will therefore experience much faster growth than the countries of Western Europe, even though periods of rapid expansion may alternate 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 in which we operate, modern banking services – with the exception of deposit-taking – were largely unknown until a few years ago. On the lending side, this was due to high nominal and real interest rates and also to disposable incomes that did not support household credit growth. In addition, a healthy competitive environment was lacking due to extensive state ownership. All this has changed in recent years. In most of the countries, interest rates are in a process of convergence or have already converged to euro levels. Disposable incomes have risen strongly on the back of growing gross domestic products. Most formerly state-owned banks have been sold to strategic investors who have fostered product innovation and competition. Despite the recent economic slowdown and potential temporary negative impacts on the banking markets in Central and Eastern Europe, these factors will remain 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 even today an enormous gap exists between those markets. Countries such as the Czech Republic and Slovakia, but also Croatia and Hungary, are many years away from reaching Austrian or Western European levels of loans per capita; also in relative terms these countries differ substantially in debt levels common in the West. The contrast to Serbia or Romania is even more pronounced: private debt levels, and particularly household debt, is substantially lower than in the advanced economies. Even though the developments of very recent years will probably 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 sustainable economic growth will prove to be a lasting trend rather than a short-term process that has already peaked.

Customer loans/capita in CEE (2012) in EUR thousand



Source: Local central banks, Erste Group

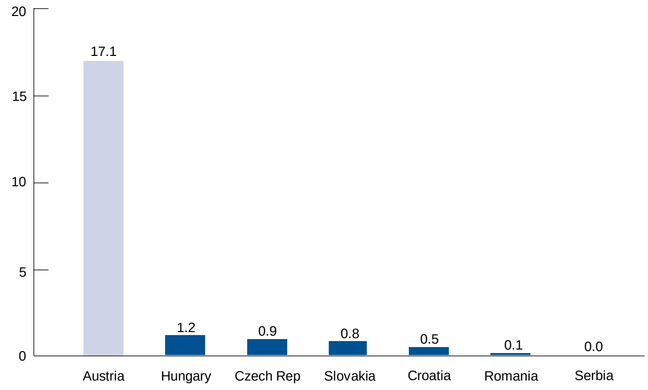
Wealth management

As customers become more prosperous, wealth management, which is embraced by our affluent banking services as well as by our asset management activities, will become another source of long-term growth. We dominate the asset management business in our existing Central and East European markets and, in addition, can build on our experience in Austria, where we have a market with a share of 21.6%. In Central and Eastern Europe we hold market shares between 14% and 36%.

The growth dynamics in asset management differ fundamentally from those seen in standard banking products, as substantial growth typically becomes visible only at a later stage of economic development. Based on past experience in Austria, we expect that asset management will reach a critical mass as soon as nominal GDP per capita exceeds significantly and sustainably the amount of EUR 10,000. Almost all of our core markets, as the Czech Republic, Slovakia, Hungary and Croatia, have either surpassed this level or are close to do so. We believe that basic consumption needs are satisfied at this level and that the attention begins shifting towards providing for the future. The relatively slow economic recovery has clouded the outlook for growth in wealth management activities in the short term, as in economically difficult times customers focus on safety and clearly prefer in their investment decisions deposits 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.

To focus even more intensely on our core competencies and strengths, we sold the entire insurance business to Vienna Insurance Group in 2008. The long-term distribution agreement with the Vienna Insurance Group will enable us to still benefit from the expected rise in demand for insurance products.

Funds/capita in CEE (2012) in EUR thousand



Source: Local fund management associations, Erste Group

CONTINUING DEVELOPMENT OF OUR CUSTOMER BUSINESS

We regard Central and Eastern Europe as a region offering above-average long-term growth potential in traditional banking as well as in wealth management. Erste Group has established a presence in all major countries in the eastern part of the European Union, with the exception of Poland. Our local banking subsidiaries are market leaders in the Czech Republic, in Slovakia, and in Romania. We are among the top three banks in Hungary and Croatia and hold a small market share in Serbia. Erste Group's future development will be driven mainly by organic growth, with the possible exception of an expansion into Poland in the medium term.

Management Report

ECONOMIC ENVIRONMENT IN 2012

The global macroeconomic development in 2012 was characterised by factors including declining economic growth, uncertainty about the euro zone's future, crucial political elections in countries such as the United States, Japan, Spain, Greece, and France, and the United States' fiscal cliff. During 2012, global economic growth slowed down further with a growing number of developed economies falling into recession. Those in severe sovereign debt distress moved even deeper into recession, impacted by high unemployment, weak aggregate demand compounded by fiscal austerity, high public debt burdens, and financial sector fragility. Growth in the major developing countries and economies in transition also decelerated, reflecting both external vulnerabilities and domestic challenges. The euro zone break-up risk, something which was continually over-stated throughout the year, was also one of the major forces in 2012. The fear centered on Greece with the general election and then seemingly never-ending bail-out negotiations being in focus. Finally, in the second half of 2012, the United States' fiscal cliff also impacted the financial markets until a final deal was reached.

The US economy developed positively in 2012, with GDP growth of 2% and corresponding job creation at around 150,000 non-farm payrolls per month. Sentiment amongst companies was volatile and burdened towards the year end by the uncertainty surrounding the fiscal cliff which delayed investment activity. Net exports were neither a major contributor to growth. In contrast, the improvement on the labour and housing markets – the latter fuelled by the Fed's purchases of mortgage-backed securities (MBS) – supported households' financial situation and confidence, thus supporting consumption as well as higher savings. Economic growth in Asia continued to outperform that of Europe and the US, driven mainly by China and India. Economic growth in Japan in 2012 was up from a year ago, mainly driven by reconstruction works and recovery from the earthquake-related disasters of 2011. The Japanese government also took measures to stimulate private consumption. The euro zone, on the other hand, entered a mild recession in 2012. While doubts about the stability of the Monetary Union abated following the announcements of the European Central Bank regarding the bond purchasing programme (Outright Monetary Transactions, OMT) and Long Term Refinancing Operations (LTRO), those measures did not fully feed through to the real economy in 2012. In addition, the debt crisis continued to have an impact on peripheral countries and weighed on the continent's leading economies, Germany and France. All in all, the world economy grew by 3.2% in 2012, after 3.8% in 2011.

Despite Austria's macroeconomic slowdown in 2012, it remained one of the most successful countries of the European Union. Austria had triple-A ratings from two of the three major credit rating agencies mainly due to the countries long-term stability, its competitive and diversified economy and the prudent management of fiscal resources. The long-term budget discipline and above average economic growth kept public debt at a level of 75% in 2012. In fact, the government adopted a EUR 28 billion austerity programme to reduce debt. Measures affected civil service salaries, pensions, and state-owned enterprises on the spending side while the government levied extra taxes on real estate and closed tax loopholes on the revenue side. Dynamics of economic growth turned down as the debt crisis in the euro zone caused demand for Austrian exports to slow considerably and dampened consumption growth. Investment activity was also subdued as a consequence of weak internal and external demand and lower capacity utilization. Despite the slowdown, Austria continued to grow faster than the euro zone average in 2012, with its GDP rising by 0.7%. Measured in terms of GDP per capita at approximately EUR 37,000, Austria remained one of the euro zone's most prosperous countries in 2012. In addition, Austria had the lowest unemployment rate in the European Union at 4.3% with its highly skilled, competitive, and flexible workforce.

Economic growth in Central and Eastern Europe also decelerated during 2012, with some, including the Czech Republic, Hungary, Croatia, and Serbia falling back into recession. All in all, within Central and Eastern Europe, economic growth varied in 2012 from 2.0% in Slovakia to -2.0% in Croatia. Despite worsening external conditions, exports remained the driver of growth in the region, while fiscal austerity measures, still high unemployment rates, and fears over the euro zone crises kept consumption at low levels. The car industry, which was one of the main contributors to exports, had another great year supporting the Czech, Slovak, Romanian, and even the Hungarian economies. Agriculture, on the other hand, was generally weak in the region which had a pronounced impact on the Romanian economy where this sector plays a more important role for the overall economy than in other CEE countries. Reduction of debt levels in the longer term remained one of the key priorities of Central and Eastern European governments leading to austerity packages in a number of countries. Some of the currencies came under downward pressure and were volatile during 2012 due to a combination of contagion from the euro zone, uncertain political environment, and questionable policymaking. In order to promote growth, national banks in the region continued to cut base rates throughout the year. This was most pronounced in the Czech Republic and Romania, where benchmark interest rates reached new historic lows.

PERFORMANCE IN 2012

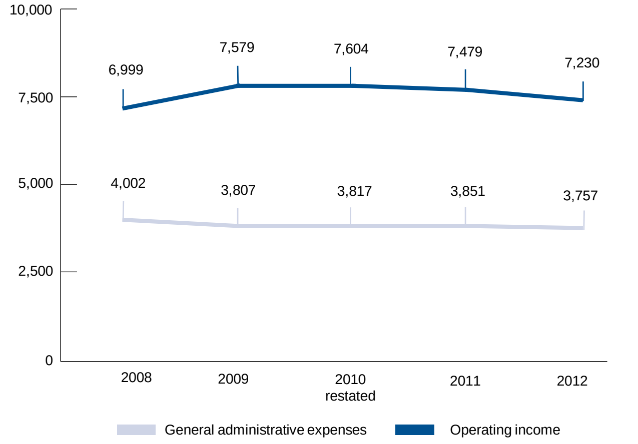
Acquisitions and disposals in Erste Group in 2012 did not have any significant impact and therefore no effects on the rates of changes stated below. Details are provided in the notes to the consolidated financial statements.

Overview

Despite a reduction of operating expenses, the **operating result** declined to EUR 3,472.8 million in the financial year 2012 (-4.3% versus EUR 3,627.6 million in 2011) due to lower operating income.

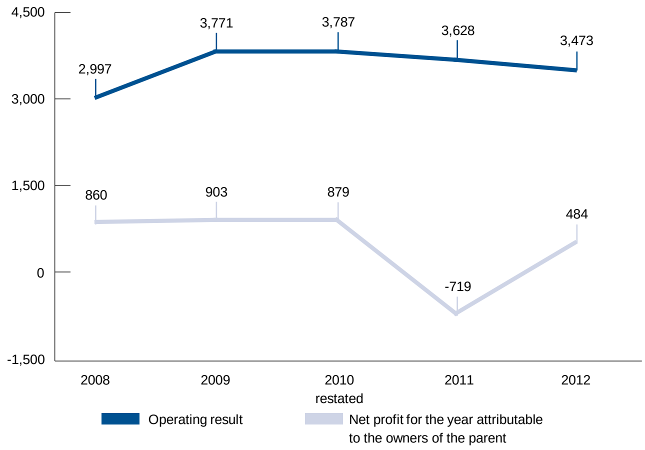
Operating income amounted to EUR 7,229.5 million (2011: EUR 7,478.5 million). The 3.3% decline was mainly due to lower net interest income (-6.0% to EUR 5,235.3 million) and lower net fee and commission income (-3.7% to EUR 1,720.8 million), which was not fully offset by a rise in the net trading result from EUR 122.3 million in 2011 to EUR 273.4 million. **General administrative expenses** declined by 2.4% to EUR 3,756.7 million (2011: EUR 3,850.9 million). This resulted in a **cost/income ratio** of 52.0% (2011: 51.5%).

Operating income and operating expenses in EUR million



Net profit attributable to owner of the parent improved to EUR 483.5 million in the financial year 2012 (2011: EUR -718.9 million).

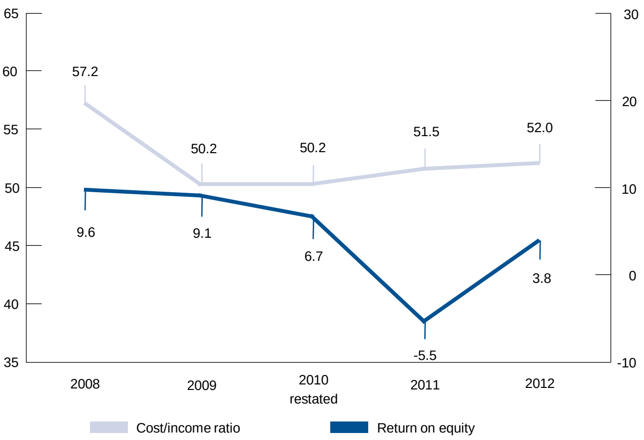
Operating result and net profit/loss for the year attributable to owners of the parent in EUR million



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 7.6% (reported ROE: 3.8%) versus 2.3% (reported ROE: -5.5%) in 2011.

Cash earnings per share for the financial year 2012 amounted to EUR 2.17 (reported EPS: EUR 0.87) versus EUR 0.42 (reported EPS: EUR -2.28) in 2011.

Key profitability ratios in %



Total assets, at EUR 213.8 billion, were up 1.8% versus year-end 2011. Risk-weighted assets declined by EUR 8.7 billion, or 7.6%, to EUR 105.3 billion.
The **solvency ratio** improved to 15.5% as of 31 December 2012 (year-end 2011: 14.4%), well above the legal minimum requirement. The **core tier 1 ratio** relating to total risk and as defined by Basel 2.5, was 11.2% as of 31 December 2012.

Dividend
It will be proposed to the Annual General Meeting of Erste Group Bank AG that shareholders will be paid a dividend of EUR 0.40 per share (2011: no dividend was paid). The holders of participation capital will be paid a dividend of 8% on the nominal value.

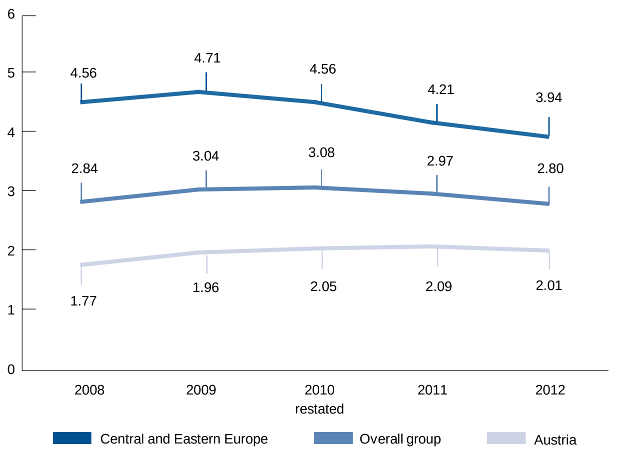
Outlook
Erste Group expects a slight improvement in economic performance for Central and Eastern Europe in 2013, even though growth will remain moderate. Accordingly, Erste Group targets a stable operating result for 2013. This is expected to be achieved by offsetting slightly lower operating income as a result of moderate loan demand and the low interest rate environment with lower operating costs. Erste Group expects to show a better year-on-year operating performance in the last three quarters of 2013 than in the first quarter of 2013.

For group risk costs a double-digit percentage decline is expected for 2013, mainly due to the likely improvement of the risk situation in Romania. Erste Group continues to expect that its Romanian subsidiary BCR will return to profitability in the financial year 2013.

ANALYSIS OF PERFORMANCE

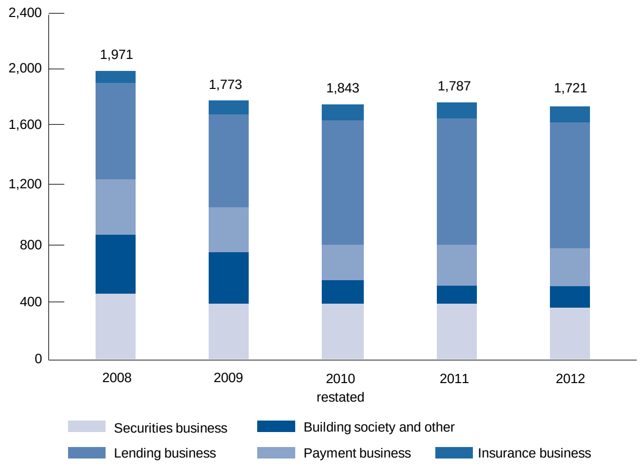
Net interest income
Net interest income declined from EUR 5,569.0 million in 2011 to EUR 5,235.3 million in the financial year 2012, mainly due to a narrowing of the net interest margin (net interest income as a percentage of average interest-bearing assets) from 2.97% to 2.80%. This development was due to the low interest rate environment on the one hand and to subdued credit demand, especially for consumer loans, and the reduction of non-core assets on the other.

Net interest margin in %



Net fee and commission income
Net fee and commission income decreased from EUR 1,787.2 million to EUR 1,720.8 million in the financial year 2012. This development was mostly due to a decline in the securities business (primarily in Austria and the Czech Republic), as well as in lending and insurance brokerage. Positive contributions came from Erste Group's factoring subsidiary Intermarket Bank AG (consolidated since 1 August 2011).

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



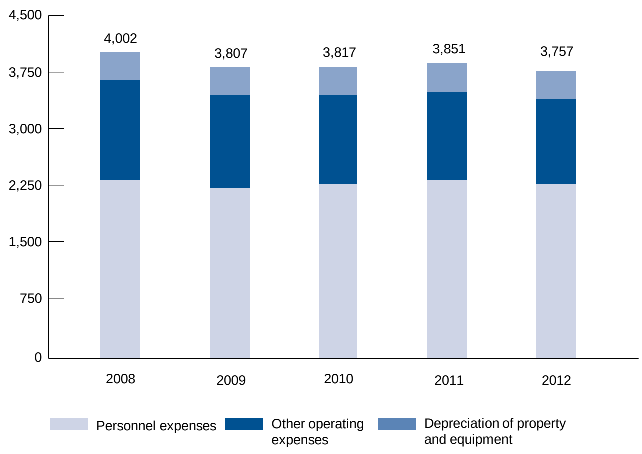
Net trading result

The net trading result improved from EUR 122.3 million in 2011 to EUR 273.4 million in 2012. This was mainly attributable to last year's changes in the fair value of the CDS investment portfolio (closed out in the meantime), which had had a negative impact of EUR -182.6 million, and higher contributions from foreign exchange business.

General administrative expenses

General administrative expenses declined by 2.4% from EUR 3,850.9 million to EUR 3,756.7 million (currency-adjusted: -1.3%) despite increasing inflation rates during 2012.

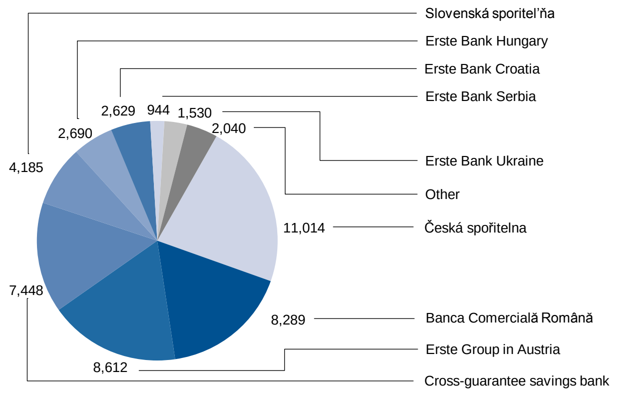
General administrative expenses, structure and trend, in EUR million



Personnel expenses decreased by 1.7% (currency-adjusted -0.8%) from EUR 2,323.7 million to EUR 2,284.1 million due to a lower headcount. Major cost savings were achieved in **other administrative expenses** (mainly IT and office-related expenses), which declined by 4.0% (currency-adjusted: -2.4%) from EUR 1,152.4 million to EUR 1,106.1 million, and in **depreciation and amortisation**, which was down by 2.2% (currency-adjusted: -0.9%) from EUR 374.8 million to EUR 366.5 million.

The **headcount** declined by 2.1% versus year-end 2011 to 49.381 employees. This was mainly due to reorganisation measures in Hungary, Romania and Ukraine

Headcount as of 31 December 2012



Operating result

Driven by declines in net interest income and net fee and commission income, **operating income** decreased by 3.3% to EUR 7,229.5 in 2012 from EUR 7,478.5 million in 2011. **General administrative expenses** were reduced by 2.4% from EUR 3,850.9 million to EUR 3,756.7 million. This led to an **operating result** of EUR 3,472.8 million (2011: 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) decreased by 12.7% versus 2011, from EUR 2,266.9 million to EUR 1,980.0 million. This was mostly attributable to a decline in risk provisions in Hungary (one-off charge of EUR 450.0 million in 2011) and in the Czech Republic, which more than offset the rise in provisioning requirements in Romania and Croatia. In the financial year 2012, risk costs in relation to the average volume of customer loans were 148 basis points (2011: 168 basis points).

Other operating result

Other operating result improved from EUR -1,589.9 million in 2011 to EUR -724.3 million in 2012. This was primarily due to significantly lower goodwill adjustments of EUR 514.9 million of which EUR 469.4 million were for the Romanian subsidiary and EUR 45.5 million mostly for Austrian investments, versus

EUR 1,064.6 million in 2011, of which EUR 699.2 million had been for the Romanian and EUR 312.7 million for the Hungarian subsidiaries, EUR 52.7 million for Austrian investments. Other taxes rose from EUR 163.5 million to EUR 269.1 million. A large proportion of these comprised banking taxes. In Slovakia, a banking tax was newly introduced in 2012 and resulted in a charge of EUR 31.5 million for 2012. In Hungary, the banking tax amounted to EUR 47.3 million in 2012, while in 2011 it was offset against losses resulting from the forced early repayment of foreign-currency loans on preferential terms. In Austria, banking tax was raised by 25% and totalled EUR 165.2 million. In addition, the other operating result was negatively impacted by the agreement on the sale of the Ukrainian subsidiary by EUR 75.0 million.

Other operating result also included straight-line amortisation of intangible assets (i.e. customer relationships) of EUR 69.2 million (2011: EUR 69.0 million) as well as deposit insurance contributions of EUR 80.7 million (2011: EUR 87.2 million). Positive contributions came from the buyback of tier 1 and tier 2 instruments, which generated one-off income of EUR 413.2 million, and gains on the sale of properties and financial assets amounting to EUR 73.7 million

Result from financial instruments

The overall result from all categories of financial assets improved from EUR -93.0 million in 2011 to EUR 32.7 million in the financial year 2012. This positive performance was primarily due to higher gains on sales and lower valuation effects in the available-for-sale portfolio.

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

The **pre-tax profit** for the financial year 2012 amounted to EUR 801.2 million versus a pre-tax loss of EUR 322.2 million in 2011.

Net profit after minorities for the financial year 2012 amounted to EUR 483.5 million versus a net loss after minorities of EUR 718.9 in the financial year 2011

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 2012 the reported total income tax expense amounted to EUR 170.2 Mio (2011: EUR 240.4 Mio).

The tax rate increased in 2012 to 21.2% (2011 negative).

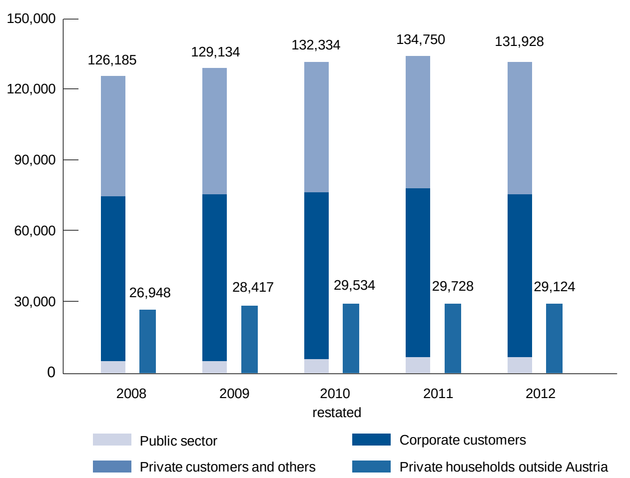
Balance sheet development

Total assets, at EUR 213.8 billion, were up 1.8% versus year-end 2011. Risk-weighted assets declined by EUR 8.7 billion, or 7.6%, to EUR 105.3 billion.

Loans and advances to credit institutions rose from a low level of EUR 7.6 billion as of 31 December 2011 to EUR 9.1 billion as of 31 December 2012. This increase was largely attributable to excess liquidity deposited with central banks.

Loans and advances to customers decreased slightly from EUR 134.8 billion as of 31 December 2011 to EUR 131.9 billion as of 31 December 2012. This was due to declines in lending in Hungary, in the real estate business and in the International Business as well as to the reclassification of loans related to Erste Bank Ukraine as assets held for sale (shown under other assets).

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



Risk provisions increased from EUR 7.0 billion to EUR 7.6 billion due to additional allocations. The NPL ratio (non-performing loans as a percentage of loans to customers) stood at 9.2% as of 31 December 2012 (8.5% as of 31 December 2011). The NPL coverage ratio improved, rising from 61.0% at year-end 2011 to 62.6%.

Investment securities held within the various categories of financial assets rose by 10.4% from EUR 38.1 billion at year-end 2011 to EUR 42.1 billion on the back of increased investments into bonds allocated to the available-for sale and held-to-maturity portfolios. This reflects the acquisition of highly liquid assets in preparing for the new Basel 3 liquidity rules and the investment of excess liquidity.

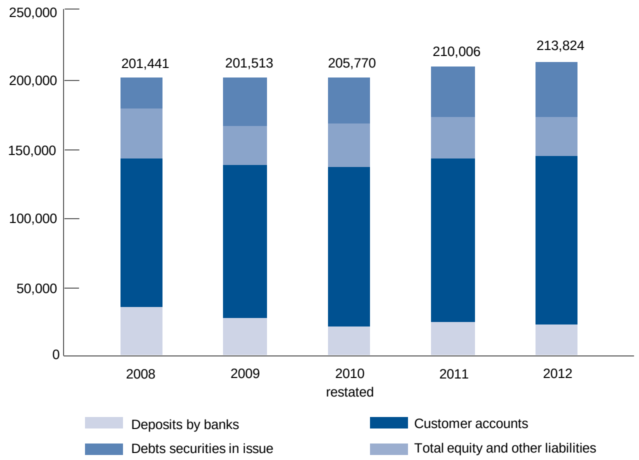
Customer deposits increased by 3.5% from EUR 118.9 billion to EUR 123.1 billion as of 31 December 2012. This development was driven primarily by deposit gains in Austria, in the Czech Republic and in Hungary.

At 107.2%, the **loan-to-deposit ratio** as of 31 December 2012 was lower than it had been as of 31 December 2011 (113.3%).

Debt securities in issue, in particular bonds and certificates of deposit, declined by 4.3% from EUR 30.8 billion to EUR 29.4 billion as of 31 December 2012.

The reduction of **subordinated liabilities** from EUR 5.8 billion to EUR 5.3 billion as of 31 December 2012 resulted primarily from the buyback of tier 1 and tier 2 instruments in a total notional amount of approximately EUR 1.3 billion, which more than offset new issuance of subordinated instruments.

Balance sheet structure/liabilities and total equity in EUR million



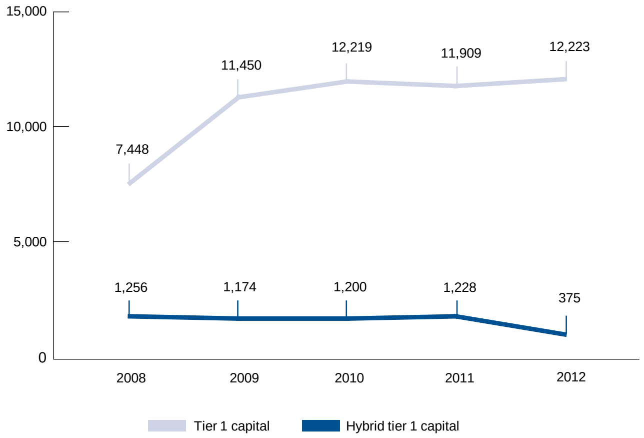
At EUR 105.3 billion, **total risk-weighted assets (RWA)** as of 31 December 2012 were 7.6% lower than as of 31 December 2011 (EUR 114.0 billion). This decline was due to the sale of non-core assets, a changed business mix with a larger proportion of mortgage loans as well as a number of additional measures taken to reduce risk-weighted assets.

Total eligible **qualifying capital** of the Erste Group credit institution group, as defined by the Austrian Banking Act, at EUR 16.3 billion as of year-end 2012 was almost unchanged versus year-end 2011. The coverage ratio with respect to the legal minimum requirement at the reporting date (EUR 8.4 billion) was 193.6% (year-end 2011: 179.9%).

Erste Group's **shareholders' equity** rose to EUR 12.9 billion as of 31 December 2012 (year-end 2011: EUR 12.0 billion). This was attributable to the profit of the year 2012 as well as to an improvement in the available-for-sale reserve. Tier 1 capital after the deductions defined in the Austrian Banking Act increased less due to the buyback of tier 1 instruments and amounted to EUR 12.2 billion (year-end 2011: EUR 11.9 billion).

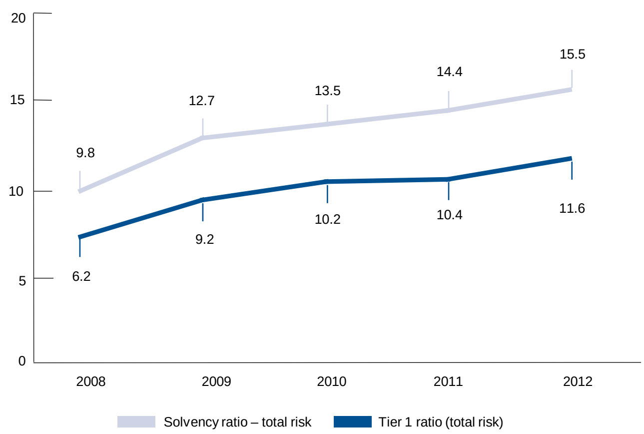
The **tier 1 ratio**, which includes the capital requirements for market and operational risk (total risk), improved to 11.6% (year-end 2011: 10.4%). The core tier 1 ratio rose to 11.2% as of 31 December 2012 (year-end 2011: 9.4%).

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



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) at 15.5% as of 31 December 2012 (year-end 2011: 14.4%) was well above the legal minimum requirement.

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



EVENTS AFTER BALANCE SHEET DATE

There were no significant events after the balance sheet date.

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

As Erste Bank Group AG does not conduct any independent and regular research for new scientific and technical findings and no upstream development work for commercial production or use, it does not engage in any research and development activities pursuant to section 243 (3) no. 3 UGB. In order to drive improvements for retail customers and in the on-going services Erste Group Bank AG launched the Innovation Hub in 2012. Its purpose is to initiate and coordinate across-the-board initiatives with a strong focus on "real customer experiences". As a multidisciplinary team consisting of marketing, product and IT as well as design experts, the Innovation Hub is tasked with creating innovations and managing new programme initiatives.

CORPORATE SOCIAL RESPONSIBILITY

Erste Group takes its responsibility towards society very seriously. Its major corporate goal is to enable companies, private individuals and the public sector to lead a financially healthy life. Many of our activities centre on this, others follow the principle of investing part of our profits into the relevant regions and using resources as sparingly as possible.

Customers

The Erste Group branch network remains the most important contact point for customers, in addition to extended mobile banking facilities. Erste Bank Austria offers multilingual consulting services in 22 branches in Vienna, Mödling and Schwechat to ensure sound, individual advice regardless of language barriers. Furthermore, Banca Comercială Română also provides product and service information in Hungarian. Erste Bank Austria ATM cards and Erste Bank Serbia ATM machines now feature information in Braille and six branches of Erste Bank Serbia provide consultation services for the deaf or hard-of-hearing. Not only this, but 86 branches of Erste Bank Hungary use special light and colour scheme functions on their self-service machines. Erste Group's online banking features have been adapted to let visually impaired customers choose between three different font sizes. The modifications at two out of three of Erste Bank Hungary's branches and at all the branches of Erste Bank Serbia guarantee barrier-free access to the buildings.

Customer services need to be improved continuously to deepen relationships with customers. The establishing of the independent "Group Customer Experience" unit has enabled us to get a better picture of customer requirements and needs. Customer satisfaction is evaluated on a Group-wide level with the help of the *Bank Market Monitor*, which includes about 600 telephone interviews in all Erste Group countries per quarter. This study yields data for an international comparison of performance. The quality and sustainability of the products offered is assessed on a regular basis to guarantee quality of service to all customers. Erste Group is also preparing an innovative product approval process that will be undergone by each new product before it is launched.

All our asset management units have been centralized under the umbrella of Erste Asset Management since 2012. The trend towards sustainable investments has been used by Erste Asset Management and a wide range of ethically-friendly funds were developed last year. Thus, Erste Group's Asset Management subsidiary in Austria and the CEE region has become a major provider of sustainable investment funds. The funds managed of approximately 2 billion euros exceeded the 2011 level by more than 20%. Furthermore, the exclusion criterion "outlawed weapons" for all actively managed Erste Asset Management funds and the post of "Chief Sustainability Investment Officer" were introduced at the end of 2011, in addition to the focus on sustainability funds. The goal is to establish sustainable aspects in Erste Asset Management's entire fund range.

Erste Group continued to work on developing solution strategies for the financial integration of social enterprises in 2012. A share in good.bee enabled the Group to provide private customers and companies without access to financial services funding using microbanking. good.bee once again focused on Romania's rural regions last year. Additionally, Erste Bank Serbia has extended its partnership with the Serbian National Employment Service and supported over 67 young entrepreneurs as part of the *supERSTEp* program. The *good.beeginners* program enabled Erste Bank Croatia to support new start-ups on a selective basis. In Austria, Erste Bank started the initiative betreutes Konto (guided account) in cooperation with the Austrian debt counselling organization Schuldnerberatung Wien and also got the student support program *For Best Students* ready for market. Our NGO cooperation was also restructured in 2012. It now focuses on a new support concept and reducing bank fees for such organizations.

Civil Society

Erste Group has always supported social, cultural and educational projects, in line with the founding principle of the "Sparkasse" 200 years ago. Parts of the profits generated in Central and Eastern Europe flow back into regional projects through the Erste Group MehrWERT sponsorship program.

Social Activities
Erste Group encourages long-term support and has been helping Caritas fight poverty in Austria for many years. It centres on helping people in difficult situations in a quick and concrete manner. Thus, underprivileged people are given new opportunities for continuous, long-term development. The focus is on young people, especially in Austria, Hungary, Serbia and Slovakia. These activities include the Eastern European Campaign for Children, the association lobby.16 – which gives young refugees access to education and work – and the talent program Club 27. Educational projects are also funded in the Czech Republic, where NPO employees are taught business know-how to strengthen their autonomy from donors. Young entrepreneurs can put their creative ideas into practice thanks to micro loans by Erste Bank Croatia, as well as receiving additional training and mentoring.

Arts and Culture
Erste Group supported a number of culture projects in its regions in 2012 within its MehrWERT sponsorship program. Young artists receive support via scholarships and the provision of opportunities to perform and exhibit. New concepts enabling underprivileged people to experience music are also part of this commitment. Just as in previous years, Erste Group was the partner of numerous festivals in a variety of countries, such as the Viennale Film Festival, multi-Genre and jazz festivals. Even the trade fair VIENNAFAIR and Vienna Design Week were supported by us.

Education
Spreading finance and business knowledge to the largest possible part of a country's population is a prerequisite for stable economic growth and long-term security of wealth. This is why Erste Group has initiated a number of educational projects in its countries, targeting mainly young people. Children are introduced to the subject of money at the Zoom children's museum. There are educational programs for students and apprentices on income and expenses, financial planning, the role that banks play and financial products and instruments. These materials are also accessible via educational portals and are conveyed with the help of a series of films. In addition, Zweite Sparkasse also offers workshops on debt prevention.

Corporate Volunteering
Voluntary commitment is an important element in the CSR activities of the Erste Group. The Erste Time Bank Placement Portal, which networks employees and retirees from Erste Bank with organizations looking for volunteers, has been running since the beginning of 2012. In addition, Erste Bank loans employees to NGOs for a certain amount of time, usually three to four months. This voluntary commitment includes workshops, waste collection days and handing out food after natural catastrophes.

Staff
Erste Group offers its staff members a number of opportunities for further education and encourages international knowledge transfer. The courses span all levels from one-year on-the-job training for university graduates to courses for managers and presentations giving the latest insights. The Erste School has been offering its own Compliance Certification Program since 2012. Erste Bank is also striving to increase the number of women in management and in specialist positions, offering further education directed at women. Another major concern is the incorporation and re-integration of parents after maternity or paternity leave. Carotid-artery screening was offered in Austria for the prevention of strokes during 2012, as part of a program on cardiovascular health. The screening was well-attended. Erste Group finances comprehensive medical care for its employees and their families, in particular in countries where medical health care does not meet western European standards. This means that Erste Group is a pioneer in health promotion and the company was mentioned by the OECD as a trendsetter in the field of preventing psychological medical problems.

Environment
Erste Group has conducted extensive monitoring of its environmental activities and their impact to be able to carry out its measures successfully. Environmental objectives and activities, categorized into protecting natural resources and waste management, were devised based on the monitoring. Staff involvement is essential for the consistent implementation of the environmental strategy. One sign signalling the success of this approach is that some of the on-going projects derived from national initiatives. The environmental awards given to Erste Bank Austria and Serbia illustrate the right path has been taken with regards to the environment. Important projects in the field of energy saving are replacing light bulbs with LED lights, optimizing heating and cooling systems and limiting lighting. Erste Group is also striving to reduce its paper use drastically. This means that as many bank transactions as possible should be conducted without paper. Thus, Erste Bank Austria has introduced signature pads to achieve this objective.

CAPITAL, SHARE, VOTING AND CONTROL RIGHTS

Disclosures pursuant to section 243a (1) Austrian Commercial Code
With regard to the statutory disclosure requirements, connected to the composition of the capital as well as the class of shares, a special reference is made to the note 30 in the consolidated financial statements.

As of 31 December 2012, DIE ERSTE österreichische SparCasse Privatstiftung, a foundation, held approximately 20% 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 243a 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:

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 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 on-going 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 per cent 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.

Cooperation between Erste Group Bank AG and Vienna Insurance Group ("VIG")

Erste Group Bank AG and Vienna Insurance Group AG Wiener Versicherung Gruppe ("VIG") are parties to a General Distribution Agreement concerning the framework of the cooperation of Erste Group and VIG in Austria and CEE with respect to bank and insurance products. In case of a change of control of Erste Group Bank AG, VIG has the right to terminate the General Distribution Agreement, and in case of a change of control of VIG, Erste Group Bank AG has a reciprocal right. A change of control is defined, with respect to Erste Group Bank AG, as the acquisition of Erste Group Bank AG by any person other than DIE ERSTE österreichische Spar-Casse Privatstiftung or Austrian savings banks of 50% plus one share of Erste Group Bank AG's voting shares, and with respect to VIG, as the acquisition of VIG by any person other than Wiener Städtische Wechselseitiger Versicherungsverein – Vermögensverwaltung – Vienna Insurance Group of 50% plus one share of VIG's voting shares. If VIG elects to terminate the General Distribution Agreement after a change of control of Erste Group Bank AG has occurred, it may choose to ask for a reduction of the original purchase price that it and its group companies have paid for the shares in the CEE insurance companies of Erste Group. The rebate corresponds to the difference between the purchase price and the embedded value and is reduced to zero on a linear scale from 26 March 2013 to 16 March 2018. "

Erste Group Bank AG and VIG are furthermore parties to an Asset Management Agreement, pursuant to which Erste Group undertakes to manage certain parts of VIG's and its group companies' securities assets. In case of a change of control (as defined above), each party has a termination right. If Erste Group Bank AG elects to terminate the Asset Management Agreement following such a change of control of VIG, because the new controlling shareholders of VIG no longer support the Agreement, it may choose to ask for a full refund of the purchase price that it has paid for 95% of Ringturm Kapitalanlagegesellschaft m.b.H., the asset management company performing the services under the Asset Management Agreement. The refund decreases on a linear scale down to zero from October 2013 to October 2018.

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 per cent 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 AktG. However, the shares purchased under this authorisation and under Section 65 par. 1 no. 1, 4 and 7 AktG may not exceed 10% per cent 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 corporate 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 accounting 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 Centre, and Group Consolidation. The subsequent consolidation steps are then performed using the consolidation system (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, 28 February 2013

Management Board

Andreas Treichl mp Chairman	Franz Hochstrasser mp Vice Chairman
Herbert Juranek mp Member	Gernot Mittendorfer mp Member

Manfred Wimmer mp
Member

Segments

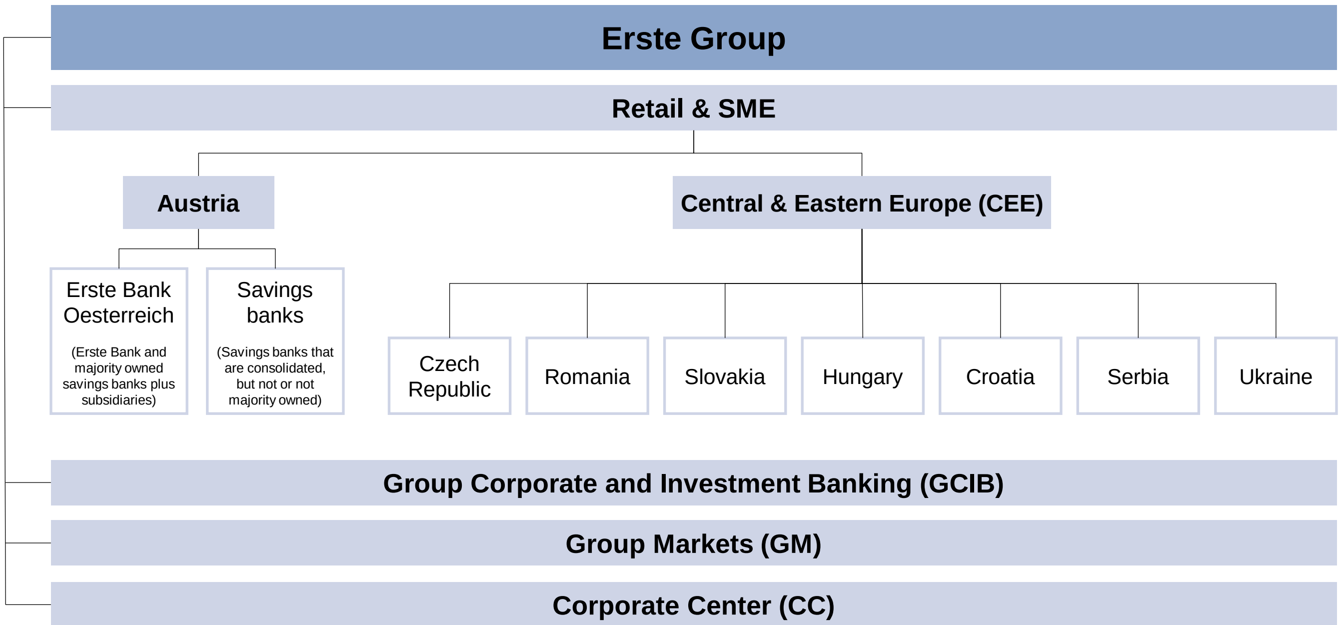
INTRODUCTION

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 comprises the individual regional units focusing on Erste Group's local customer business. To improve transparency and to be consistent with current reporting, the Austria region is split into the sub-segments Erste Bank Oesterreich (including local subsidiaries) and the savings banks consolidated under the cross-guarantee system (Haftungsverbund). In Central and Eastern Europe, all the subsidiaries are reported individually as sub-segments.

The Group Corporate and Investment Banking (GCIB) segment includes Erste Group's fully divisionalised large corporate, investment banking, real estate, equity capital markets, and international business lines. The Group Markets (GM) segment includes divisionalised business lines, such as Group Treasury and Group 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 also allocated to the Corporate Center. The result of local asset/liability management units remains part of the respective sub-segments.

The segments are aligned with Erste Group's organisational set-up. 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 divided into the sub-segments Erste Bank Oesterreich and the savings banks in Austria, and the sub-segments Czech Republic, Romania, Slovakia, Hungary, Croatia, Serbia and Ukraine.

AUSTRIA

Economic review

Although the pace of economic activity slowed in Austria in 2012, GDP growth, at 0.7%, exceeded the euro zone average (-0.6%). The Austrian economy benefited in particular from its broad diversification and well-balanced mix of industries. Exports developed well, and at 42% of GDP, the export ratio was in line with the euro zone average of 44%. Therefore, the marked economic slowdown in some of Austria's major export markets had a noticeable negative impact on economic performance. With a share of approximately 30%, Germany was again Austria's most important export market. Domestic demand components could not sufficiently offset slowing export momentum. Domestic demand was adversely affected by subdued corporate investment activity and a decline in consumer spending. The labour market remained robust despite the economic downtrend: The unemployment rate rose only slightly from 4.2% to 4.3% and remained the lowest in the European Union. At a GDP per capita of around EUR 36,700, Austria was again one of the most prosperous countries in the euro area in 2012.

The rating agencies Moody's and Fitch continued to rank Austria as one of the highest-rated countries of Europe with an AAA rating based in particular on its competitive economy and social and political stability. Only S&P lowered Austria's rating in January 2012 to AA+.

At 74.7% of GDP, government debt remained significantly below the euro zone average of 92%.The budget deficit rose to 3.1%, not least due to transfers to (partially) nationalised banks. To reduce debt long-term, a second consolidation package was adopted in 2012. More than half of its measures refer to planned spending cuts (particularly in pensions and public administration). The plans aimed at increasing revenues focus on raising existing taxes or introducing new ones. Taxes affecting large parts of the population are not being planned, though. The banking tax was again a key source of revenue.

Inflation amounted to 2.5% and reflected the lower economic activity in 2012, while the inflation rate of 3.6% in 2011 was mainly due to one off items, such as the increase in the mineral oil tax. The European Central Bank continued its low-interest policy and cut the key lending rate to 0.75% in July 2012.

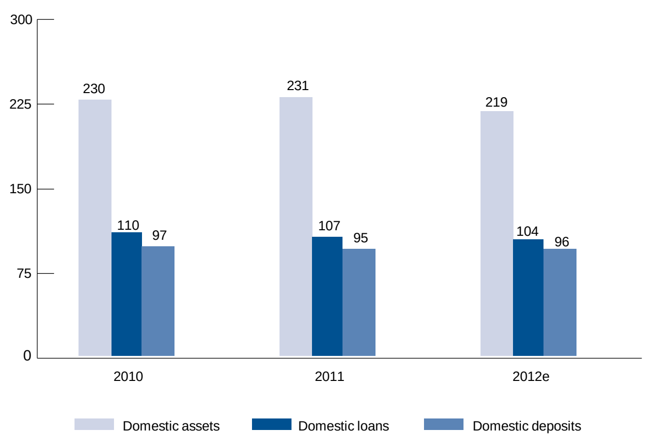
Key economic indicators – Austria	2009	2010	2011	2012e
Population (ave, million)	8.4	8.4	8.4	8.5
GDP (nominal, EUR billion)	276.2	286.4	300.7	310.4
GDP/capita (in EUR thousand)	33.0	34.2	35.8	36.7
Real GDP growth	-3.8	2.1	2.7	0.7
Private consumption growth	-0.3	1.7	0.7	0.4
Exports (share of GDP)	35.1	38.2	40.5	42.0
Imports (share of GDP)	36.0	39.7	43.6	44.2
Unemployment (Eurostat definition)	4.8	4.4	4.2	4.3
Consumer price inflation (ave)	0.4	1.7	3.6	2.5
Short term interest rate (3 months average)	1.2	1.0	1.4	0.6
EUR FX rate (ave)	1.0	1.0	1.0	1.0
EUR FX rate (eop)	1.0	1.0	1.0	1.0
Current account balance (share of GDP)	2.7	3.4	0.6	2.0
General government balance (share of GDP)	-4.1	-4.5	-2.5	-3.1

Source: Erste Group

Market review

The Austrian banking sector, with total domestic assets of 219% of the GDP in 2012, is a well-developed banking market. The market remained very competitive due to the large number of non-listed banks. As a result, margins were significantly lower than in Central and Eastern Europe, as were risk costs. Growth remained subdued throughout the year, with loans to customers remaining flat compared to year-end 2011 and deposits increased by 3.8%. The banking system's loan-to-deposit ratio was approximately 109% at year-end 2012. The special banking tax intended to lower the government deficit was raised by 25% after the partial nationalisation of Österreichische Volksbanken AG (ÖVAG) and totalled EUR 625 million in 2012.

Financial intermediation – Austria (in % of GDP)



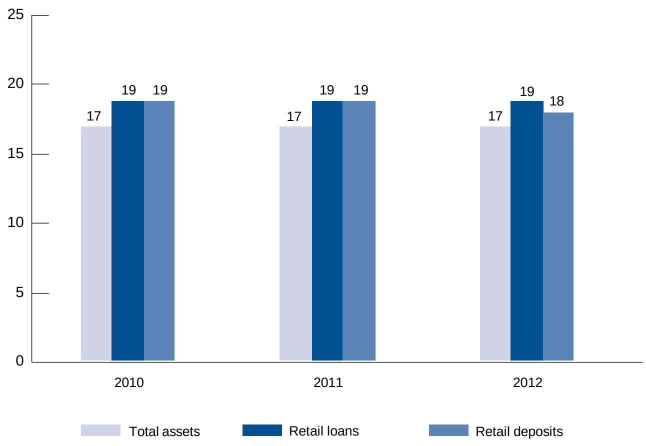
Source: Oesterreichische Nationalbank, Erste Group

In March 2012, the Austrian National Bank (OeNB) and the Austrian Financial Market Authority (FMA) published guidelines aimed at raising the equity capital base of large Austrian banks with international operations over the medium to long term and achieving a more balanced funding structure at exposed subsidiaries. The principal objective is to build up a capital buffer commensurate with risk. Loan growth at the subsidiaries is made conditional on sustainable local refinancing. In countries in which the loan-to-local refinancing ratio (i.e. the loan-to-deposit ratio including local refinancing) exceeds 110%, any new business must be kept below 110%. This reduces dependence on parent company funding, thus limiting potential negative spill-over effects on the Austrian economy. Furthermore, banks will require effective restructuring and resolution regimes for the event of future crises.

In 2012, the capital adequacy of Erste Group and Raiffeisen Zentralbank was audited by the European Banking Authority (EBA). As of 30 June 2012, both systemically relevant banks had an EBA equity ratio (Core Tier 1) higher than the required 9%.

The foreign exposure of Austrian banks is strongly concentrated on the CEE region; risk is broadly diversified. Austrian banks hardly have any exposure in the euro zone's peripheral countries Ireland, Spain, Greece or Portugal.

Market shares – Austria (in %)



Source: Oesterreichische Nationalbank, Erste Group

Erste Bank Oesterreich and the savings banks held onto their strong position in the Austrian banking market in 2012. At year-end 2012, their combined market share as measured by total assets stood at 17%. In the retail business, Erste Bank Oesterreich and the savings banks retained their share at about 19%, while in the corporate business market shares ranged between 17% and 20% depending on the product.

ERSTE BANK OESTERREICH

In addition to Erste Bank Oesterreich itself, this sub-segment includes the three savings banks in which Erste Bank Oesterreich holds majority ownerships: Salzburger Sparkasse, Tiroler Sparkasse and Sparkasse Hainburg-Bruck-Neusiedl. Another component of this sub-segment is Erste Bank Oesterreich's real estate and mortgage business, which encompass retail mortgages and financing for subsidised and non-subsidised housing projects, as well as facility management and real estate brokerage. s Bausparkasse, who is one of the Austrian market leaders in financing for retail customers and for non-profit and commercial developers, is among the bank's 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 specialised in housing loans, also play key roles.

Business review

Strategy. Erste Bank Oesterreich and its three majority-owned savings banks are universal banks focusing on private individuals, free professions and small and medium-sized enterprises as well as large corporate customers, the public sector and non-profit organisations. 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, the public sector and non-profit organisations. Through its multiple-award-winning subsidiaries, the bank also offers financial products related to investments, construction, housing and leasing. In private banking, Erste Bank Oesterreich is among the market leaders in Austria. Together with the savings banks, Erste Bank Oesterreich 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 2012

Growth driven by new customers. Top quality in client relationship management is key to winning new customers. Despite customers' steadily rising expectations and the general public's critical attitude towards banks, current surveys conducted by the *Banking Market Study 2012* indicate a high degree of satisfaction, a willingness to recommend the bank, and a higher level of trust among customers of Erste Bank Oesterreich as compared to the banking industry as whole.

Accordingly, approximately 25,000 new customers were acquired in 2012. One in four inhabitants of Vienna is already a customer of the bank. Among the efforts contributing to this success was the campaign focusing on the bank's superior service quality and securities expertise. This campaign started in spring 2012 and both existing and potential customers were invited to have their securities accounts analysed to ensure that their financial needs are met. As a result of this campaign the asset volume under management was increased by EUR 80 million.

Focus on innovation. Customers' needs change over the course of time. Customers expect their bank to offer better accessibility and more flexibility than it did a few years ago. Enhancing accessibility to banking services through a variety of channels is among the bank's key business principles. Erste Bank Oesterreich is convinced that individual advice and personal, face-to-face communication will remain crucial to providing its services successfully. In order to meet the various needs of its customers and to facilitate mobile financial transactions, Erste Bank Oesterreich offers device-optimised netbanking as well as a netbanking app for smartphones. More than 180,000 downloads of the netbanking app and positive reviews demonstrate the importance of such products and services.

New and innovative savings products, such as *Impulssparen* (Impulse Savings) and *Rundungssparen (*Keep the Change*)* contributed to the success of Erste Bank's savings offerings. The Impulse Savings app allows the transfer of funds from cash accounts to savings accounts with a mere click. This app was downloaded more than 10,000 times. The *Keep the Change* app, which is being used by more than 20,000 customers, is a new method of savings combined with card payments. The amount due is rounded up to the nearest euro and the difference is transferred directly to the customer's savings account.

Managing CHF loans. Developments in the foreign exchange and financial markets seriously affected Austrian foreign currency borrowers. Through its dedicated *foreign currency loans task forc*e, Erste Bank Oesterreich provides focused advice to customers and supports them in restructuring their foreign currency loans and improving collateral back-up. It is aimed at making customers aware of the current situation and the rise in potential risk, explaining available options and helping in implementing the decisions made.

Erste Bank strongly promotes all measures to reduce risk, recommending primarily transforming 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 care to legitimate customer interests and the bank's responsibility to advise and support its customers.

Awards for excellent private banking. For the fourth consecutive year, Erste Bank Oesterreich, joined by Erste Bank Hungary and Banca Comercială Română, was recognised with several awards by *Euromoney*. For 20 years, this magazine with a focus on financial markets has been conferring its *Euromoney Awards for Excellence* in major financial markets and product categories to the most successful financial institutions and leading banks across the globe. In addition, the British business magazine *The Banke*r has named Erste Group's Private Banking the best private banking institution in Central and Eastern Europe.

Financial review

in EUR million	2012	2011
Pre-tax profit/loss	255.1	232.2
Net profit/loss after minority interests	192.4	177.6
Operating result	337.9	397.3
Cost/income ratio	64.5%	60.5%
Return on equity	15.0%	16.3%
Customer loans	28,052	28,199
Customer deposits	29,960	28,774

The decline in net interest income from EUR 665.9 million in the financial year 2011 by EUR 48.1 million, or 7.2%, to EUR 617.8 million was primarily due to lower income from financial assets, reflecting the development of interest rates. Net fee and commission income rose from EUR 320.6 million by EUR 18.4 million, or 5.7%, to EUR 339.0 million in the financial year 2012 despite a decline in the securities business. This improvement was mainly a result of higher fees in the retail business as well as the inclusion of Intermarket Bank AG in August 2011. The decline in the net trading result from EUR 20.2 million in the financial year 2011 by EUR 24.4 million to EUR -4.2 million in the financial year 2012 was attributable to negative valuation results in 2012. The slight rise in operating expenses from EUR 609.4 million by EUR 5.3 million, or 0.9%, to EUR 614.7 million resulted from the integration of Intermarket Bank AG in August 2011 and higher IT expenditure. The operating result decreased from EUR 397.3 million in the financial year 2011 by EUR 59.4 million, or 15.0%, to EUR 337.9 million. The cost/income ratio was 64.5% versus 60.5% in the financial year 2011.

The further reduction in risk provisions from EUR 101.4 million in the previous year by EUR 5.2 million, or 5.1%, to EUR 96.2 million in 2012 reflected the continuing stabilisation of the loan portfolio. Improvement in the "other result" by EUR 77.1 million to EUR 13.4 million in the financial year 2012 was mainly driven by valuation gains, income from the sale of securities held in the available-for-sale portfolio and the sale of real estate. In the previous year, other financial assets had been affected significantly by valuation losses. Banking tax amounted to EUR 9.7 million in the financial year 2012 (financial year 2011: EUR 7.7 million). Net profit after minorities rose from EUR 177.6 million by EUR 14.8, or 8.3%, to EUR 192.4 million in the financial year 2012. Return on equity stood at 15.0% versus 16.3% in the previous year.

Credit risk

Total exposure in the Erste Bank Oesterreich sub-segment decreased by 6.8% to EUR 35.2 billion in 2012, while the volume of customer loans barely changed and amounted to approximately EUR 28 billion at the end of 2012. The share of Erste Bank Oesterreich in Erste Group's total loan portfolio was 21.2% at the end of December 2012 and therefore 0.3 percentage points higher than in 2011. The breakdown by customer segments remained stable, retail customers as well as medium-sized and larger companies accounted for 42% each in the total loan portfolio. Loans to self-employed persons, the free professions and micro-businesses play a smaller role than to the savings banks. At the end of 2012, these loans amounted to 9.8% of total loans to customers.

Supported by a specific advisory initiative for the conversion of foreign currency loans, the share of loans denominated in Swiss francs in the total loan portfolio decreased significantly from 14.4% to 11.8%. A decline was also seen in unsecured lending, its share in total lending having dropped by almost 2 percentage points to 29% in 2012.

The quality of the loan portfolio of the Erste Bank Oesterreich sub-segment remained essentially unchanged at a relatively high level. The share of non-performing loans in total loans to customers was 3.8% at the end of 2012 compared to 3.7% at year-end 2011. The development was especially positive in the retail business, with asset quality among the self-employed and small businesses improving remarkably. In addition to the public sector, private households remained the customers showing the fewest defaults.

SAVINGS BANKS

The Savings Banks sub-segment encompasses 44 Austrian savings banks with 744 branches across the country. They are consolidated due to their membership in the Haftungsverbund (cross-guarantee system). Erste Bank Oesterreich and Sparkasse Oberösterreich entered into a separate cross-guarantee agreement. Erste Bank Oesterreich has no or only minor shareholdings in these institutions. Savings banks that are majority owned by Erste Bank Oesterreich, i.e. Salzburger Sparkasse, Tiroler Sparkasse, Sparkasse Hainburg-Bruck-Neusiedl, are included in the Erste Bank Oesterreich sub-segment. The cross-guarantee system covers in total 50 Austrian savings banks and provides a sound legal basis for collaboration with Erste Bank Oesterreich.

Business review

Strategy. The savings banks are classic universal banks serving private individuals, free professions and 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 the market leaders 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 approach. Customers benefit from the wide variety of financial products and services developed through coordinated 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 2012

Successful customer acquisition. In 2012, all Austrian savings banks gained more than 60,000 new customers. By continuing the upward trend of the previous year, the total number of customers rose to almost 3.3 million. Campaigns such as *Kunden werben Kunden* (tell a friend) contributed significantly to the successful acquisition of new customers. This proved just how much customers appreciate it when services are aimed to satisfy their actual needs.

Mobile banking. Enhancing accessibility to banking services through a variety of channels as well as facilitating mobile financial transactions have become crucial to meeting the changing needs of customers. New and innovative savings products, such as *Impulssparen* (Impulse savings) and *Rundungssparen* (Keep the Change) also complimented the product offerings of the savings banks.

Sales support. The savings banks are supported by a dedicated task-force of Erste Bank Oesterreich. The main priorities are the further optimisation of sales potentials and sales steering. By observing business developments, financial needs can be quickly identified, thus allowing pro-active steps to be taken and continuously improving the service quality of the savings banks.

Cost projects. Further expense-related projects were implemented in 2012 across the savings banks. Initiatives related to the "optimisation of other administrative expenses" and to "personnel benchmarking at savings banks" that enabled the participating institutions to compare their expenses with those of their peers and to identify specific action points. Another initiative supporting the savings banks in identifying further optimisation potentials focused on the analysis of the branch locations, providing information on the performance of the branches and allowing peer comparison. Measures were drawn up to tackle weaknesses and to follow best practice examples. As a result, the savings banks quickly exploited their optimisation potential.

Financial review

in EUR million	2012	2011
Pre-tax profit/loss	202.3	154.7
Net profit/loss after minority interests	21.5	6.0
Operating result	425.7	487.1
Cost/income ratio	68.7%	65.6%
Return on equity	5.8%	2.0%
Customer loans	37,687	37,604
Customer deposits	34,215	33,555

The decline in net interest income from EUR 1,015.6 million by EUR 75.6 million, or 7.4%, to EUR 940.0 million in the financial year 2012 was mainly due to lower income from financial assets due to interest rate developments. Net fee and commission income rose by EUR 7.8 million, or 2.0%, to EUR 398.0 million in 2012, driven by payment transfers and the lending business. The net trading result improved from EUR 12.2 million in the financial year 2011 by EUR 7.7 million to EUR 19.9 million in the financial year 2012, reflecting higher income from foreign exchange trading. Operating expenses rose only slightly by EUR 1.3 million, or 0.1%, to EUR 932.2 million. The operating result decreased from EUR 487.1 million by EUR 61.4 million, or 12.6%, to EUR 425.7 million. The cost/income ratio stood at 68.7% versus 65.6% in the previous year.

Risk provisions fell by EUR 24.5 million, or 9.8%, from EUR 250.4 million in the financial year 2011 to EUR 225.9 million. A significant improvement in the "other result" from EUR -82.0 million by EUR 84.5 million to EUR 2.5 million was largely due to gains on disposal in the available-for-sale portfolio in 2012 and valuation losses in the securities portfolio in 2011. Banking tax amounted to EUR 8.1 million in the financial year 2012 (2011: EUR 6.5 million). Net profit after minorities rose from EUR 6.0 million in the financial year 2011 by EUR 15.5 million, to EUR 21.5 million in the financial year 2012.

Credit risk

Total exposure in the savings banks sub-segment decreased slightly by 1.4% from EUR 52.9 billion to EUR 52.1 billion in 2012. Loans to customers stagnated at almost EUR 37.7 billion, amongst other things due to the subdued demand for loans. The distribution of borrowers by customer segments hardly showed any changes. Business with free professions, self-employed persons and SMEs shows a disproportionately higher importance for the Austrian savings banks as compared to Erste Group overall. Accounting for nearly one-fifth of total loans, the share of this customer segment is significantly larger than at the subsidiaries of Erste Group in Central and Eastern Europe. This reflects the structure of Austria's economy that features in international comparison a very high share of small and medium-sized businesses.

Foreign currency loans denominated in Swiss francs decreased steeply, but at a share of 14.5% of total loans to customers the ratio was still far above Erste Bank Oesterreich's level. The trend for higher collateralisation of loans continued in the past financial year.

The quality of the loan portfolio changed only slightly in the course of 2012 and was satisfactory. The share of non-performing loans in the total loan book was 6.9% both at the beginning and at the end of the year. The migration trend of performing loans to better risk classes continued. Compared by customer segments, the development was particularly positive among retail customers. The NPL coverage improved further and amounted to 60.8% of the total non-performing loans portfolio at the end of 2012.

CZECH REPUBLIC

The Czech Republic sub-segment includes the retail, private banking, 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 658 branches and 1,466 ATMs. It serves some 5.2 million retail customers, SME customers, large corporate customers and municipality customers. Česká spořitelna has issued almost 3.2 million bank cards, including roughly 350,000 credit cards. The bank's building society, pension fund and factoring subsidiaries also occupy leading positions in their respective fields.

Economic review

Despite strong fundamentals, the Czech economy went into recession in 2012. The uncertainty emanating from the euro zone debt crisis, combined with domestic fiscal restriction, hurt domestic demand, especially its household component. Construction investment fell considerably and, given the nature of the open Czech economy, the slowdown in the key European Union trade partners adversely affected the country's economy. Nevertheless, net exports remained the main contributor to growth, a powerful testament to Czech competitiveness. Following sluggish growth in 2011, real GDP contracted by 1.0% in 2012, while GDP per capita stood at EUR 14,500. The unemployment rate increased slightly to 6.9% in 2012.

After the sizeable reduction achieved in 2011, partly on account of a significant drop in investment, the general government deficit rose slightly to 3.3% of GDP in 2012. The deterioration in the deficit reflects the worsened macroeconomic conditions and weak private consumption. The Czech Republic maintained its traditionally lower public debt relative to its CEE peers at 44% of GDP, and the government abandoned its plans for fiscal restriction in 2014. Rating agencies acknowledged the overall performance of the Czech economy, with S&P, Moody's and Fitch affirming the country's long-term sovereign credit rating at AA−, A1 and A+, respectively, in 2012.

Real disposable income contracted due to sluggish growth in wages and elevated inflation, fuelled by an increase in the lower rate of VAT from 10% to 14%. In 2012 inflation reached 3.3% and was driven by higher energy and food prices, the hike in the lower VAT, and continued price deregulations. 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. The Czech National Bank cut rates in June, September, and finally in October 2012 to 0.05%.

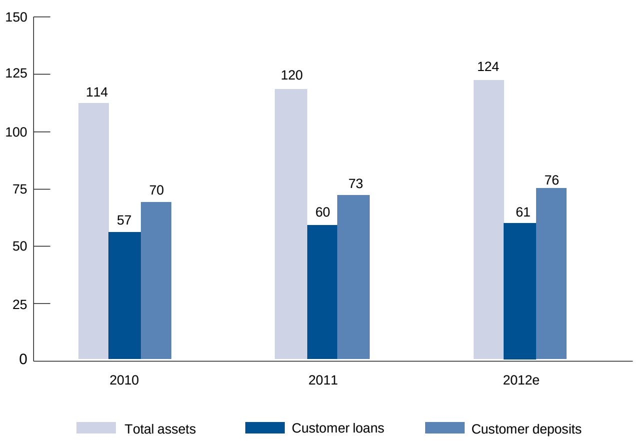
Key economic indicators – Czech Republic	2009	2010	2011	2012e
Population (ave, million)	10.5	10.5	10.5	10.6
GDP (nominal, EUR billion)	142.2	150.1	156.1	153.3
GDP/capita (in EUR thousand)	13.6	14.3	14.9	14.5
Real GDP growth	-4.4	2.3	1.9	-1.0
Private consumption growth	0.3	0.9	0.7	-2.4
Exports (share of GDP)	62.6	65.8	76.0	75.5
Imports (share of GDP)	58.3	62.7	71.8	70.4
Unemployment (Eurostat definition)	6.7	7.3	6.7	6.9
Consumer price inflation (ave)	1.1	1.5	1.9	3.3
Short term interest rate (3 months average)	2.2	1.3	1.2	1.0
EUR FX rate (ave)	26.4	25.3	24.6	25.1
EUR FX rate (eop)	26.5	25.1	25.8	25.2
Current account balance (share of GDP)	-2.4	-3.9	-2.8	-2.3
General government balance (share of GDP)	-5.8	-4.8	-3.3	-5.0

Source: Erste Group

Market review

In 2012, the Czech banking market remained one of the most liquid and well capitalised markets in Central and Eastern Europe. The solid fundamentals of the Czech banking market are demonstrated by a system-wide loan-to-deposit ratio of 76% and a strong capital adequacy of 16%. As a result of the GDP contraction, customer loans grew by only 2%, while the growth in customer deposits of 5% was also driven by the highly developed savings culture in the Czech Republic. Foreign exchange-based lending remained insignificant compared to some other CEE countries. The NPL ratio remained stable at 6% and was lower than elsewhere in the CEE region. The attractiveness of the Czech banking market was also demonstrated by a stable return on equity of approximately 20%.

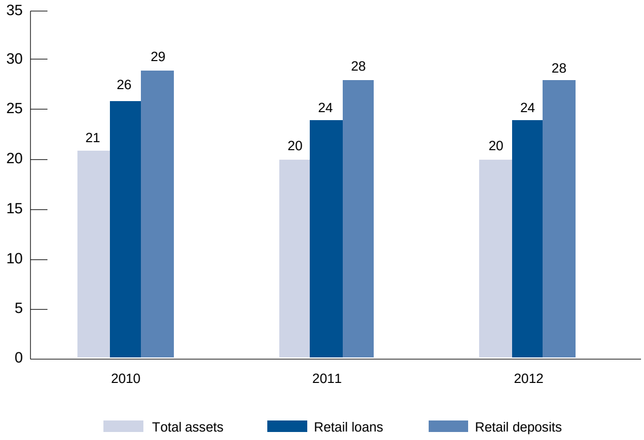
Financial intermediation – Czech Republic (in % of GDP)



Source: Czech National Bank, Erste Group

Česká spořitelna maintained its market leadership positions across all major product categories in 2012. Its retail market shares ranged from 24% to 28% while its share in the corporate segment remained lower at around 20%. Overall, its market share in terms of total assets remained at around 20%. Česká spořitelna also retained its number-one position in the payment card market with a market share of 32%.

Market shares – Czech Republic (in %)



Source: Czech National Bank, Erste Group

Business review

Strategy. Česká spořitelna's strategy is directed towards 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 customers. 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 and to substantially increase its presence in the business with entrepreneurs, SMEs, and local corporate customers while not losing sight of the need to further enhance client satisfaction. The bank aims at sustainable profit growth while maintaining high risk standards.

In 2012, Česká spořitelna continued the transformation process of its retail and private banking business. This will result in different service levels according to the clients' specific financial needs. The first significant step in this process was the successful establishment of Erste Premier and Erste Private Banking as the highest service level in asset management.

Highlights from 2012

Strong position in the mortgage business. Česká spořitelna continued to grow its mortgage book with the volume of new mortgages rising by more than 25%. This development was attributable to well-tailored products and services for customers and the sound development on the Czech real estate market. In 2012, Česká spořitelna provided more than 16,000 new private mortgages totalling CZK 25.8 billion. Česká spořitelna was the market leader in the mortgage business, having a market share of 28%.

Focus on SMEs. Česká spořitelna aims at continuously offering high and well above standard customised services. In order to demonstrate the competence in the SME business, the bank offered different *TOP* programmes for SMEs in agriculture, energy and export-related businesses. *TOP AGRO* addresses farmers, facilitates the bridging of seasonal cash flows and provides financing for necessary investments. In addition, Česká spořitelna introduced the *TOP INOVACE* programme. It specialises in innovation across all industries and focuses on an assessment of the project by independent advisors, financing for innovation projects and consulting during the entire realisation phase. The *TOP ENERGY* programme supports the preparation and implementation of innovative projects in energy savings and production. Reflecting the importance of exports to the Czech economy, the TOP EXPORT programme focuses on SME subcontractors who are active in the export business.

Front-runner in electronic banking. Česká spořitelna maintained its leading position in electronic banking. At the end of August 2012, the well-established and leading electronic banking products *SERVIS 24* (for retail customers) and *BUSINESS 24* (for corporate customers) were redesigned to further improve the already high level of customer satisfaction. The *SERVIS 24* electronic banking product was named product of the decade in the *Zlatá Koruna* (Golden Crown) competition in 2012. In the past 10 years of the competition, *SERVIS 24* has been named the most popular product repeatedly and has obtained the highest number of awards.

International and local recognition. Česká spořitelna was named the *Best Bank in the Czech Republic* in 2012. A professional jury of experts from several countries chooses the winners of the *Euromoney Awards for Excellence*. Česká spořitelna also won the international award *Bank of the Year* in the Czech Republic, annually bestowed by *The Banker Magazine*. The bank received this award for its results achieved last year. For the ninth time in a row, Česká spořitelna was awarded the title *The Most Trustworthy Bank of the Year* in the prestigious Fincentrum Bank of the Year competition in 2012, and Pavel Kysilka, CEO of Česká spořitelna, was again elected *Banker of the Year*. These awards confirmed Česká spořitelna's success in pursuing its strategic approach and highlighted the quality of the services the bank provides.

Financial review

in EUR million	2012	2011
Pre-tax profit/loss	656.2	587.9
Net profit/loss after minority interests	518.0	456.3
Operating result	889.0	920.4
Cost/income ratio	43.8%	43.7%
Return on equity	40.9%	42.8%
Customer loans	17,891	17,187
Customer deposits	25,598	24,296

Net interest income in the Czech Republic sub-segment declined from EUR 1,183.3 million by EUR 69.5 million, or 5.9% (currency-adjusted: -3.7%), to EUR 1,113.8 million. This development was mainly attributable to falling market interest rates and subdued credit demand, especially for consumer loans. Net fee and commission income decreased from EUR 496.5 million in the previous year by EUR 49.3 million, or 9.9% (currency-adjusted: -7.9%), to EUR 447.2 million in 2012 mainly due to lower income from lending business and payment transfers. The net trading result improved from EUR -45.5 million in the financial year 2011 by EUR 65.4 million to EUR 19.9 million, which was attributable to negative valuation effects related to the pension fund in the previous year. Operating expenses declined by EUR 22.0 million, or 3.1% (currency-adjusted: -0.9%), to EUR 691.9 million in the financial year 2012.

The operating result declined from EUR 920.4 million in the financial year 2011 by EUR 31.4 million, or 3.4% (currency-adjusted: -1.2%), to EUR 889.0 million. As portfolio quality continued to stabilise, risk provisions fell by EUR 70.9 million, or 33.7% (currency-adjusted: -32.2%), to EUR 139.6 million in the financial year 2012. Improvement in the “other result” from EUR -122.0 million by EUR 28.8 million to EUR -93.2 million was primarily driven by higher income from financial assets. At EUR 518.0 million, net profit after minorities was EUR 61.7 million, or 13.5% (currency-adjusted: +16.1%) higher than in the previous year (EUR 456.3 million). The cost/income ratio, at 43.8%, was almost unchanged versus 2011 (43.7%). Return on equity declined from 42.8% to 40.9%.

Credit risk

Total exposure in the Czech Republic sub-segment increased by 8.2% to EUR 32.8 billion in 2012. Supported by a 2.5% appreciation of the Czech koruna against the euro, the Czech Republic sub-segment posted the most dynamic development of all sub-segments across Erste Group. Loans to customers increased during the reporting period by 4.1% to EUR 17.9 billion. The loan volume increase was evenly distributed across private households and businesses. In the Czech Republic, loans are almost exclusively granted in local currency. As generally observed at Erste Group, the share of secured loans, in particular retail mortgage loans, also increased in the Czech Republic sub-segment.

The share of the Czech Republic sub-segment in total loans to customers of Erste Group rose to 13.6% in 2012 (2011: 12.8%). Hence, the Czech Republic is the second most important market for Erste Group after Austria.

Even though there was a slight decline in economic activity in 2012, the negative effects of the global financial and economic crisis as well as the European sovereign debt crisis were relatively mild in the Czech Republic compared to other countries of Central and Eastern Europe. This development and an effective credit risk management contributed to the further improvement of the loan portfolio in 2012, therefore continuing the positive trend of the year 2011. The share of non-performing loans to total loans to customers decreased from 5.5% to 5.3%. In contrast to the development in many other CEE markets, mainly the quality of corporate loans improved. Risk provisions in relation to non-performing loans stood at 72.2% at the end of 2012.

ROMANIA

The Romania sub-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 623 branches and 41 commercial centres as well as internet and phone banking. It also operates the largest national network of ATMs and POS terminals, respectively, numbering approximately 2,400 and approximately 14,400 units. Banca Comercială Română is the market leader with total assets of EUR 16.5 billion and 3.5 million customers as of year-end 2012. It is also top ranked in leasing and well positioned in the pension fund and brokerage businesses.

Economic review

After the modest growth in 2011 the Romanian economy stagnated in 2012 with GDP per capita amounting to EUR 6,200. Harsh winter conditions dragged down economic activity at the beginning of the year but growth recovered in the second quarter due to robust infrastructure investments and private consumption. However, the severe summer drought, decreasing consumer confidence, and difficulties in absorbing European Union funds had a negative impact on the economy in the second half of the year. In addition, 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 (even though Germany’s real GDP growth was not as pronounced as in 2011). Domestic demand, however, supported economic growth in 2012 as growth of private consumption was driven by higher wages both in the public and in the private sector. The unemployment rate remained stable at 7.4% with an increase in employment in services accompanied by a decline in agriculture.

Despite on-going political uncertainty, Romania continued its highly disciplined fiscal consolidation programme in 2012. In the aftermath of the global financial crisis, Romania had undergone a considerable fiscal consolidation process as a result of a stand-by arrangement with the International Monetary Fund and the European Union. As part of the agreement, most privatisations in the energy and chemical sectors were postponed until after the general parliamentary elections in December 2012. Due to continued fiscal consolidation which included a freeze in pensions, cuts in social benefits, and an increase in excise tax, the budget deficit improved further in 2012 to 3% of GDP. Romania's public debt level to GDP remained one of the lowest in the European Union at 35% at the end of 2012.

After temporary downward pressure on inflation in the first six months, prices climbed significantly in the second part of the year, driven mainly by rising food prices on the back of the severe drought and pass-through effects associated with the Romanian leu's depreciation. In addition, new steps were taken towards the liberalisation of energy prices, which resulted in a gas price increase of 5% for households and 10% for corporates. As a result of these developments the inflation rate exceeded the National Bank target of 3%. The Romanian National Bank cut the base rate three times in the first quarter of the year to a historic low of 5.25%, however, as inflation accelerated later in the year the base rate was left unchanged for the remaining part of the year. Due to political instability, the Romanian leu significantly weakened versus the euro during the summer of 2012 but this trend reversed later in the year.

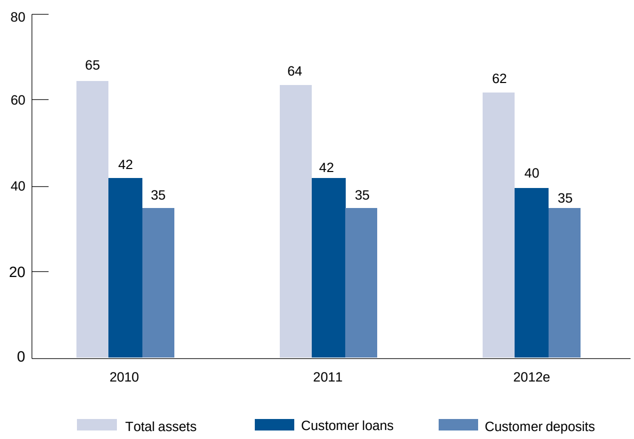
Key economic indicators – Romania	2009	2010	2011	2012e
Population (ave, million)	21.5	21.5	21.4	21.4
GDP (nominal, EUR billion)	118.2	124.4	131.3	131.5
GDP/capita (in EUR thousand)	5.5	5.8	6.1	6.2
Real GDP growth	-6.6	-1.1	2.2	0.0
Private consumption growth	-9.1	-0.2	1.1	0.7
Exports (share of GDP)	24.6	30.1	34.3	34.0
Imports (share of GDP)	33.0	37.7	41.7	39.6
Unemployment (Eurostat definition)	6.9	7.3	7.4	7.4
Consumer price inflation (ave)	5.6	6.1	5.8	5.0
Short term interest rate (3 months average)	11.7	6.8	5.8	5.3
EUR FX rate (ave)	4.2	4.2	4.2	4.5
EUR FX rate (eop)	4.2	4.3	4.3	4.4
Current account balance (share of GDP)	-4.2	-4.4	-4.3	-3.5
General government balance (share of GDP)	-9.0	-6.8	-5.5	-3.0

Source: Erste Group

Market review

The Romanian banking market was characterised by a declining interest rate environment throughout 2012 coupled with low volume growth. The latter was mainly driven by growing corporate lending. The slight increase in customer loans was due to very low demand and to banks being more prudent in their lending policies. The only loan growth driver in the retail segment was *Prima Casa*, a government-guaranteed mortgage programme introduced in 2009. The programme was switched from the euro to a local currency-base in the second half of 2012. Banks' focus turned to other business areas such as cards, digital channels, transaction banking and treasury products. As the profitability of the banking sector was still significantly impacted by high risk costs and lower margins, financial institutions continued to implement cost efficiency measures which included a reduction in workforce and further network optimisation efforts. The banking market maintained sufficient capital buffers and remained liquid in 2012.

Financial intermediation – Romania (in % of GDP)

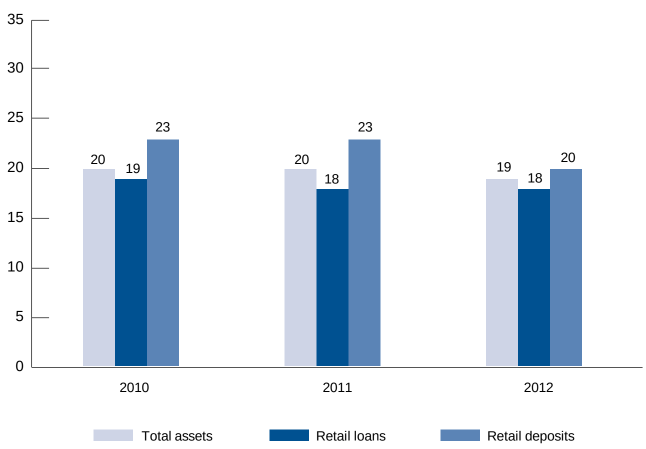


Source: National Bank of Romania, Erste Group

The Romanian National Bank continued to support local funding and local currency-based-lending throughout 2012. Due to the national bank's rules regarding limitations on tenor, debt-to-income ratio, loan-to-value ratio, and collateral coverage, consumer lending was almost exclusively done in local currency. Customers' awareness of the risk and potential disadvantages of foreign-currency-based lending increased. Altogether, customer loans grew by 1% and remained driven by increasing volumes in retail deposits. Customer deposits increased in line with customer loans at 5% in 2012.

Despite losing some market share in the corporate segment as a result of repricing measures, Banca Comercială Română held onto its leadership position in almost all major product categories. By the end of 2012, the bank was ranked number one based on total assets, customer loans, customer deposits and asset management. Overall, Banca Comercială Română had a market share in terms of total assets of 19% at the end of 2012.

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 and to return to sustainable profitability. Meeting customer needs while providing understandable financial products and high-quality customer service are at the centre of attention. Special emphasis is given to continuously improving risk management and efficiency.

In 2012, a new top management team was appointed aiming at restructuring the bank in order to return to profitability on a sustainable basis. The strategic priorities set their focus on improving the asset quality, optimising the allocation of resources, and further developing the bank's commercial strengths.

Highlights from 2012

Focus on asset quality improvement. While the NPL ratio continued its increase in 2012, Banca Comercială Română managed to substantially strengthen its NPL coverage ratio from a low level of 50.1% at year-end 2011 to 58.6% at year-end 2012. In the fourth quarter of 2012 a new business unit responsible for cleaning up the legacy retail and corporate portfolio was set up to achieve a sustainable turnaround in asset quality. The newly established division sets its focus on restructuring, recovery, and NPL sales. Following the peak in risk provisions in 2012, a significant reduction is planned for 2013.

Reviving top line growth. Banca Comercială Română holds leading market shares in retail deposits and retail loans and operates the largest national network of ATMs and POS terminals. This puts the bank in an excellent position to revive growth. In April 2012, Banca Comercială Română launched the programme *NEXT* which sets its focus on prioritising and structuring a large set of different retail initiatives to one consistent strategy that improves both client activation and client retention. The measures taken include the optimisation of the branch and multichannel network, the redesign of the performance management and the focus on daily banking needs. Beyond the short-term impact, *NEXT* aims at transforming the retail business into a sustainable growth driver. Furthermore, the programme includes measures related to the micro business, such as the automation of overdrafts, launching a new current account package for start-ups and a new assessment tool for loans.

Improving cost efficiency. Significantly reducing the cost base was among the main targets of Banca Comercială Română in 2012. The bank successfully aligned the cost dynamics with the revenue generation capacity. The branch network and the head office functions were critically reviewed. As a consequence, fourty-five retail units and seven corporate centres in areas with low growth potential were closed, and the headcount of the bank was reduced by 8%. Restructuring charges were fully covered by cost savings. The excellent cost efficiency is underlined by the cost income ratio of 41.6% in 2012. The focus is on maintaining the lowered cost base and optimising the allocation of all resources further.

Local-currency lending, improved self-funding. To fully utilise Banca Comercială Română's funding capacity in local currency, the bank intends to modify the currency structure of the balance sheet in the medium term. Hence, in October 2012, foreign-currency lending was cancelled. Since then, only retail customers with foreign-exchange income have been eligible for FX loans. In addition, loans under the *Prima Casa* state-guarantee programme have been available only in local currency since November 2012.

Focus on financial excellence. The design and implementation of a new management information system covering financial, risk and business related indicators is among the key strategic priorities. The improvement of the data integration between capital planning, risk-weighted assets management and liquidity steering of Banca Comercială Română and its subsidiaries will directly impact the bank's performance management capacity. In line with these strategic priorities, the bank also sets a strong focus on proactive balance sheet management.

Financial review

in EUR million	2012	2011
Pre-tax profit/loss	-378.6	-54.9
Net profit/loss after minority interests	-294.3	-22.5
Operating result	407.3	475.3
Cost/income ratio	46.6%	44.2%
Return on equity	na	na
Customer loans	10,682	11,160
Customer deposits	7,595	8,003

The result of the Romania sub-segment was again affected by the adverse economic environment. Net interest income declined by EUR 99.9 million, or 14.9% (currency-adjusted: -10.4%), to EUR 572.4 million. This development was mainly driven by weak consumer credit demand and narrowing margins on retail and corporate business. The decline in net fee and commission income by EUR 9.8 million, or 7.5% (currency-adjusted: -2.7%), from EUR 130.1 million in 2011 to EUR 120.3 million in the financial year 2012 was mainly attributable to lower income from payment transfers. The increase in the net trading result by EUR 21.2 million from EUR 49.3 million in 2011 to EUR 70.5 million resulted largely from revaluation gains on currency positions. Operating expenses declined from EUR 376.4 million in the previous year by EUR 20.5 million, or 5.4%, to EUR 355.9 million in the financial year 2012. Currency-adjusted, operating expenses were stable. Restructuring provisions in the amount of EUR 24.1million created at year-end 2012 were covered by cost savings achieved through optimisation measures.

Additional provisioning requirements in the retail, corporate and real estate business resulted in an increase in risk costs from EUR 499.3 million by EUR 237.9 million, or 47.6% (currency-adjusted: +55.3%), to EUR 737.2 million in the financial year 2012. This led to a rise in the NPL coverage ratio to 58.6% as of 31 December 2012 versus 50.1% at year-end 2011. The decline in the item "other result" from EUR -30.9 million by EUR 17.8 million, or 57.6% (currency-adjusted: -65.8%) to EUR -48.7 million in the financial year 2012 was mainly due to one-off income from the liquidation of the subsidiary Anglo-Romanian Bank Ltd. in 2011. Net loss after minorities rose from EUR 22.5 million in the previous year by EUR 271.8 million to EUR 294.3 million. The cost/income ratio rose from 44.2% in the previous year to 46.6%.

Credit risk

Total exposure in the Romania sub-segment increased from EUR 14.7 billion to EUR 15.0 billion in 2012, while loans to customers decreased by 5.4% to EUR 10.7 billion. At the end of 2012, this equalled 8.1% (year-end 2011: 8.3%) of the total loans to customers of Erste Group. The decrease in the loan portfolio was, on the one hand, due to the depreciation by 2.8% of the Romanian leu against the euro and on the other, to the more restrictive lending policy and the managing of overdrafts. In addition, the sale of smaller portions of the NPL portfolio on the secondary market continued, in particular of unsecured consumer loans.

At the end of 2012, two thirds of the loan portfolio consisted of secured loans. The share of foreign currency loans increased from 62.3% to 62.6% and was almost completely denominated in euros. This development was due to the *Prima Casa* programme, which is subsidised by the state. In the second half of 2012, the programme was switched from euros to local currency.

The country's sluggish economic recovery caused the asset quality to deteriorate further despite the counter measures taken in the form of stricter criteria for assessing creditworthiness. The NPL ratio, which is the share of non-performing loans in total loans to customers, rose significantly from 22.7% to 28.3% with, similar to 2011, most of the deterioration being due to corporate loans. Coping with the economic situation was most difficult for self-employed persons and micro businesses. This customer group accounted for only 5.7% of the loan portfolio at the end of 2012 as compared to 6.9% one year earlier. The development of loans to private households was clearly better and non-performing loans declined. Risk provisions were substantially increased so that the NPL coverage ratio went up from 50.1% at the end of 2011 to 58.6% at the close of the financial year 2012.

SLOVAKIA

The Slovakia sub-segment encompasses the retail, private banking and SME business of Slovenská sporiteľňa and its subsidiaries. Slovenská sporiteľňa is the long-standing retail market leader and is also one of the top players in the corporate business. Slovenská sporiteľňa also occupies leading positions in asset management, leasing and factoring. It serves some 2.4 million clients, or about half of the Slovak population, through a network of 297 branches and 773 ATMs.

Economic review

Following one of the fastest recoveries from the financial crisis in the euro area, the Slovak economy – one of the most open economies in the CEE region – was almost entirely driven by a positive supply shock in the automotive industry in 2012. Other industries, however, stagnated. The construction sector showed signs of weakness and private consumption was negatively affected by a continuing decline of real household disposable income. Altogether, real GDP grew by 2.0% in 2012 while GDP per capita stood at EUR 13,100 at year-end. In the absence of a major improvement in the labour market, the unemployment rate remained high and amounted to 13.9% at the end of 2012, which is approximately 5 percentage points above the pre-crisis level.

The public deficit as a percentage of GDP stood at 52% in 2012. The strong expenditure-based budgetary efforts conducted in 2011 did not continue in 2012. Substantial shortfalls in VAT, excise duties and income tax collection on the revenue side, coupled with higher-than-budgeted growth in expenditure on healthcare subsidies were partly mitigated by higher collection of social contributions and lower-than-expected spending on pensions. The revenue side was further strengthened by a broadening of the base of the bank levy, an additional one-off bank tax, and a special tax for companies operating in a regulated environment. As a result of these measures, the government deficit in relation to GDP remained at 5% in 2012.

After rebounding in the previous year, inflation amounted to 3.6% in 2012. Average consumer prices were largely driven by a continuing increase in energy and commodity prices and by a pick-up in the prices of non-energy industrial goods after two years of stagnation. Having adopted the euro in 2009, Slovakia continued to benefit from low euro zone interest rates.

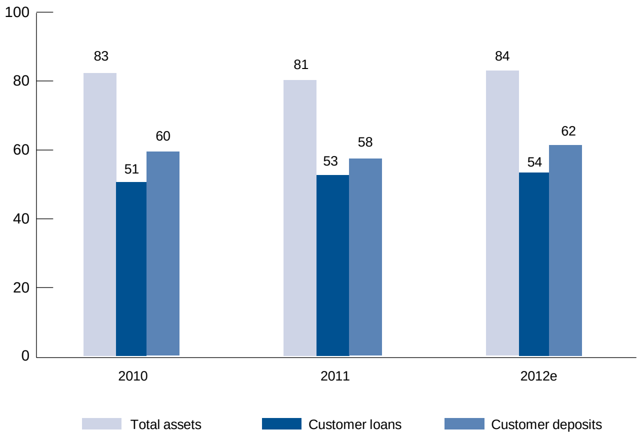
Key economic indicators – Slovakia	2009	2010	2011	2012e
Population (ave, million)	5.4	5.4	5.5	5.5
GDP (nominal, EUR billion)	62.8	65.7	69.1	71.5
GDP/capita (in EUR thousand)	11.6	12.1	12.7	13.1
Real GDP growth	-4.9	4.4	3.2	2.0
Private consumption growth	0.1	-0.8	-0.4	-0.4
Exports (share of GDP)	63.3	73.4	81.7	87.8
Imports (share of GDP)	61.7	72.2	78.1	82.7
Unemployment (Eurostat definition)	12.1	14.4	13.5	13.9
Consumer price inflation (ave)	1.6	1.0	3.9	3.6
Short term interest rate (3 months average)	1.2	1.0	1.4	0.6
EUR FX rate (ave)	1.0	1.0	1.0	1.0
EUR FX rate (eop)	1.0	1.0	1.0	1.0
Current account balance (share of GDP)	-2.6	-2.5	-2.1	2.1
General government balance (share of GDP)	-8.0	-7.7	-4.8	-4.9

Source: Erste Group

Market review

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

Financial intermediation – Slovakia (in % of GDP)



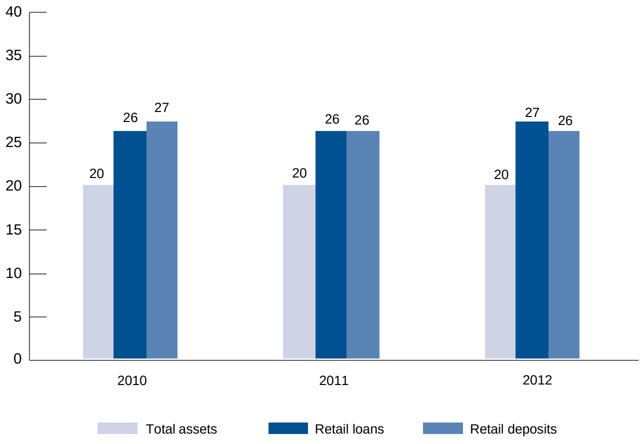
Source: National Bank of Slovakia, Erste Group

Customer loans increased by 3% in 2012, with retail loans (particularly consumer loans) having grown stronger than corporate loans. Foreign currency lending remained insignificant. Customer deposits grew stronger than loans at 6%, driven mainly by retail deposits. With its loan-to-deposit ratio of 88%, Slovakia maintained one of the most liquid and balanced banking sectors in the region.

Slovenská sporiteľňa successfully retained its leading market positions. The bank continued to control one-fifth of the country's banking market in terms of total assets, while it also led the market in retail loans and retail deposits. In the housing loan segment, Slovenská sporiteľňa's market share increased slightly to 27.2%. On the deposit side, its market share was significantly lower in the corporate segment, at 10.9%, than in retail, at 25.7%.

The banking tax, introduced in January 2012 by the previous government at 0.2% of corporate deposits only, was extended to include retail deposits and was also increased to 0.4%. The Slovak government also imposed an additional one-off tax amounting to 0.1% of taxable profits.

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 positions 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, the bank targets the growing ranks of mass affluent clients and aims to strengthen its positions in the affluent customers' and corporate banking segments. Special emphasis is is placed on delivering added value to its customers by providing appropriate financial products and services. The bank is also committed to enhancing the customer experience by continuously improving accessibility.

Highlights from 2012

Focus on client activation in retail. In 2012, Slovenská sporiteľňa introduced new loyalty programmes. Customers who have their income transferred to their cash accounts and use payment cards are eligible for premium conditions on loans and deposit products. A majority of the increase in retail deposits was due to the *Savings Account*, a deposit product for regular savings. Supported by an accompanying campaign, the volume of monthly savings increased substantially. Deposits inflows from this campaign amounted to EUR 300 million by December.

Banking for municipalities and corporate customers. In the corporate segment, Slovenská sporiteľňa extended the cooperation with the European Bank for Reconstruction and Development with a second tranche of the *Municipal Sustainable Energy Finance Facility*. Municipalities were eligible to receive funding for energy-efficiency projects, such as the insulation of buildings. Slovenská sporiteľňa also introduced *AGRO PRO*, targeting the agricultural sector and offering pre-financing of direct subsidies from agricultural payments or providing loans for the purchase of agricultural machinery.

Addressing the youth. Putting emphasis on dedicated marketing campaigns resulted in increased product awareness among young people. Slovenská sporiteľňa launched its new *Space* account, specially designed for young people. Approximately 30,000 new accounts for people between the age of fifteen and twenty-six were opened, which translates to an increase of 25% compared to last year. Interactive communication aims at strengthening the relationship between the bank and the customer. Slovenská sporiteľňa also offers premium services for additional fees for the *Space* account to raise the awareness of value and price among younger customers.

International and local recognition. A strong market position, high profitability, an improved asset quality and a strengthened capital position are the main reasons why Slovenská sporiteľňa won prestigious awards in 2012. The bank was named *Best Bank in Slovakia* in 2012. A professional jury of experts from several countries chose the winners of the *Euromoney Awards for Excellence*. Slovenská sporiteľňa also won the international *Bank of the Year* award in the Slovak Republic, annually bestowed by the magazine *The Banker*, as well as the *Bank of the Year* award granted by the local economic magazine *TREND*.

Financial review

in EUR million	2012	2011
Pre-tax profit/loss	210.6	215.5
Net profit/loss after minority interests	169.3	173.2
Operating result	301.7	329.3
Cost/income ratio	43.9%	40.5%
Return on equity	39.4%	43.2%
Customer loans	6,598	6,217
Customer deposits	7,620	7,202

Net interest income in the Slovak Republic sub-segment declined by EUR 20.8 million, or 4.7%, from EUR 445.7 million in the financial year 2011 to EUR 424.9 million in the financial year 2012. This resulted mainly from a change in the investment strategy for financial assets and a slight decline in retail business margins. The slight decline in net fee and commission income by EUR 2.2 million, or 2.0%, from EUR 112.2 million to EUR 110.0 million was mainly attributable to lower asset management commissions. The net trading result improved from EUR -4.6 million in 2011 by EUR 7.4 million to EUR 2.8 million. Operating expenses rose by EUR 12.0 million, or 5.4%, from EUR 224.0 million to EUR 236.0 million due to higher IT depreciation charges.

Risk provisions reflected an improvement in the market environment versus 2011. The SME, retail and real estate businesses benefited, leading to a reduction by EUR 20.2 million, or 27.4%, from EUR 73.6 million in the financial year 2011 to EUR 53.4 million in the financial year 2012. Improvement in the "other result" by EUR 2.5 million versus 2011 was primarily driven by valuation effects from financial assets, lower revaluation of real estate and lower deposit insurance contributions.

Banking tax amounted to EUR 26.5 million in the financial year 2012 (no banking tax in 2011). Net profit after minorities declined by EUR 3.9 million, or 2.3%, to EUR 169.3 million. The cost/income ratio increased from 40.5% in 2011 to 43.9% in 2012. Return on equity decreased from 43.2% to 39.4%.

Credit risk

Total exposure in the Slovakia sub-segment amounted to EUR 10.9 billion at year-end 2012, which is an increase of almost 8% compared to year-end 2011. Loans to customers increased marginally to EUR 6.6 billion as of the end of December 2012. This corresponds to a share of 4.7% of Erste Group's total loans to customers. A breakdown of the portfolio by customer segments showed a continuation of the trend of 2011. The percentage of better rated retail loans – as measured by asset quality – in the total portfolio increased at the expense of corporate loans, which accounted for only 23.7% of total loans to customers at year-end 2012. For those sectors that had been hit particularly hard by the financial and economic crisis, such as commercial real estate, the granting of new loans continued to be restrictive.

Lending was practically completely in euros, and, again, no foreign currency loans were granted to retail customers. Collateral coverage improved further.

The still disproportionately dynamic economic development in Slovakia compared to EU levels had a very positive effect on asset quality. The NPL ratio decreased from 8.0% to 6.6%, with improvements being seen across all customer segments. Asset quality of loans to households was particularly good. In contrast to many other countries of Central and Eastern Europe, the asset quality improved also among small businesses in 2012. The NPL coverage ratio based on risk provisions was exceptionally high at 84.3% at year-end.

HUNGARY

The Hungary sub-segment comprises the retail and SME business of Erste Bank Hungary and its subsidiaries. Erste Bank Hungary operates a network of 141 branches and commercial centres plus approximately 430 ATMs. It uses nearly 350 post offices as an additional sales channel. Erste Bank Hungary serves approximately 900,000 customers and has market shares of 7% to 14%, varying by product category. It also has significant market positions in securities brokerage and in the leasing business.

Economic review

The Hungarian economy continued to struggle in 2012 mainly due to political uncertainty and high industry-specific taxes, most notably very high additional burdens on the financial sector. Furthermore, the economic performance was negatively impacted by weak domestic demand and declining investments. On the production side, GDP was adversely affected by the exceptionally weak agricultural output as a result of a severe drought during the summer. Exports remained the only demand component to grow, although well below the 2011 rate mainly due to the high sensitivity of manufacturing sectors to the global slowdown. Altogether, Hungary's real GDP declined by 1.7% in 2012. GDP per capita stood at EUR 9,800 at year-end. The measures of the Hungarian government aimed at improving the employment-to-population-ratio were – as a result of to the government's Job Protection Act – most notable in the SME sector. Due to these measures and the increased participation in public work programmes, the unemployment rate remained stable at 10.8% at year-end 2012.

After peaking at 81% of GDP in 2010, the public debt ratio continued to improve in the last two years and stood at 78% at the end of 2012. The improvement in 2012 was mainly due to the appreciation of the Hungarian forint and fiscal policy measures. The government reduced the budget deficit target for 2012 from 2.7% to 2.5% of GDP based on the introduction of extraordinary sector taxes and the sale of telecommunication licenses. It also integrated a number of savings measures, such as the reduction of expenditures of budgetary institutions, the reduction of pharmaceutical subsidies and improvements of local governments' balances. In addition, VAT remained at 27% throughout the year, the highest in the European Union. The combined impact of these measures resulted in a government budget deficit of 2.4% in 2012.

Key economic indicators – Hungary	2009	2010	2011	2012e
Population (ave, million)	10.0	10.0	10.0	10.0
GDP (nominal, EUR billion)	91.3	96.6	99.9	98.2
GDP/capita (in EUR thousand)	9.1	9.7	10.1	9.8
Real GDP growth	-6.8	1.3	1.6	-1.7
Private consumption growth	-5.7	-2.7	-1.7	-2.0
Exports (share of GDP)	64.7	72.3	83.9	78.8
Imports (share of GDP)	60.6	68.9	71.8	79.4
Unemployment (Eurostat definition)	10.0	11.2	10.9	10.8
Consumer price inflation (ave)	4.2	4.9	3.9	5.7
Short term interest rate (3 months average)	8.6	5.5	6.2	7.0
EUR FX rate (ave)	280.6	275.4	279.2	289.4
EUR FX rate (eop)	270.8	278.8	311.1	291.3
Current account balance (share of GDP)	-0.2	1.1	0.9	1.7
General government balance (share of GDP)	-4.6	-4.2	4.3	-2.4

Source: Erste Group

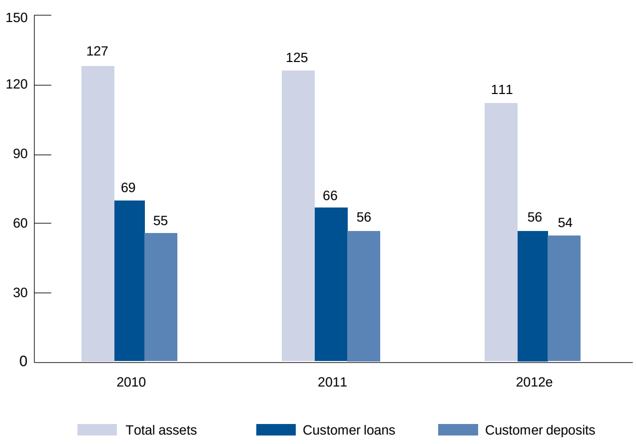
Inflation remained persistently high in 2012 compared to other countries in Central and Eastern Europe. In addition to indirect tax hikes, such as the excise duty hikes on tobacco, the high inflation was also related to increasing food prices due to unusually dry weather conditions. New sectoral taxes on financial institutions, retailers and telecom companies also contributed to rising prices. Despite the unpredictable economic environment throughout the whole year, the Hungarian forint remained relatively stable against the euro. The base rate was cut several times throughout 2012 and dropped from 7% to 5.75% by the end of the year and was further reduced to 5.25% at the end of February 2013.

Market review

For Hungary's banking market, 2012 was another extremely difficult year. The country's banking market was continuously impacted by unorthodox political decisions throughout 2012. As an important part of the government's plans to exit the European Union's excess deficit procedure, it doubled the level of the financial transaction tax as of January 2013 to 0.2% from 0.1%. In addition, the government decided to keep the special banking tax on a permanent basis. Contrary to previously announced official agreements with the Banking Association, the government decided not to halve the banking tax for 2013.

Furthermore, the banking sector had to cope with the uncertainty regarding the takeover and possible haircut on the municipality debt in 2012. Following the law that allowed customers to repay foreign-currency loans at fixed rates below the market exchange rates in 2011, the Hungarian government introduced a new foreign exchange borrower support scheme in 2012. This programme allows indebted households to pay their monthly instalments at a favourable exchange rate, with the government and banks sharing interest payments exceeding the set exchange rate. The difference between the actual and fixed exchange rates of the principal amount will be accumulated and will have to be repaid from 2017 onwards. The law also specifies the highest exchange rate, beyond which the Hungarian State covers the expenses. The participation rate in this programme was at around 26%.

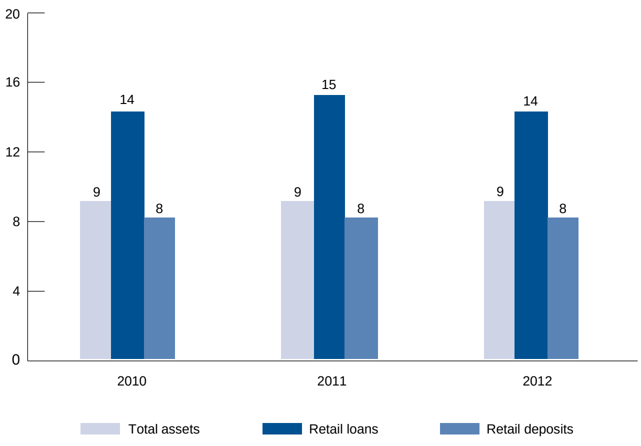
Financial intermediation – Hungary (in % of GDP)



Source: National Bank of Hungary, Erste Group

The unpredictable and unorthodox environment coupled with very low customer demand made Hungarian banks scale down their operations further. Moreover, banks' profits were also adversely affected by a sharp increase in non-performing loans driven by a still high unemployment rate. The rising rate of non-performing loans was also due to the commercial real estate and SME related businesses. As a result of all these factors, the Hungarian banking sector declined in terms of total assets to GDP from 125% to 111% as of year-end 2012.

Market shares – Hungary (in %)



Source: National Bank of Hungary, Erste Group

Despite its significantly shrinking balance sheet, Erste Bank Hungary continued to be a major market player in the country. The bank's market shares for customer loans decreased from 11.6% to 11.0% while market shares for customer deposits increased slightly to 7.7%. The market share decline in customer loans is mainly due to the downsizing of the bank's operations in line with the bank's adapted strategic approach.

Business review

Strategy. Following the changed political and economic situation in Hungary, the bank optimised the size of its operation and improved the efficiency of its processes. The strategic orientation is focused on sustainable growth and returning to profitability. Loans are only granted in local currency funded from local liquidity sources. At the same time, funding through Erste Group Bank AG shall be reduced. Based on a restructured size and strengthened risk management, Erste Bank Hungary aims to position itself as the top relationship bank. It will continue its efforts to further enhance the customer experience for its retail customers and further improve customer satisfaction and customer loyalty. The corporate business will be concentrated on a reduced corporate customer base.

Highlights from 2012

Streamlined business and integration measures. In line with its new strategy Erste Bank Hungary decided on the integration of three leasing and two factoring subsidiaries into the bank. Following the approval of the Hungarian Financial Supervisory Authority, Erste Car Leasing (Erste Leasing Autófinanszírozási Zrt.), Erste Equipment Leasing (Erste Leasing Eszközfinanszírozási Zrt.), and Erste Real Estate Leasing (Erste Ingatlanlízing Zrt.) were merged into Erste Bank Hungary in 2012 to optimise the bank's leasing business. Leasing services are now provided by a specific leasing competence centre of the bank. In addition, Erste Faktor Zrt. and Magyar Factor Zrt., Erste Bank Hungary's factoring entities were also merged with the bank in order to successfully streamline its operations.

Strengthened private banking. Erste Bank Hungary is among the leading retail banks in the country. In 2012, the bank acquired the wealth management unit of BNP Paribas with approximately 400 customers and HUF 60 billion assets under management. With this transaction, Erste Bank Hungary has strengthened its position in private banking and leapt forward to be an advisor of choice for wealthy individuals and families.

Recognition of corporate social responsibility. Erste Bank Hungary supported several NGOs to improve the life of socially disadvantaged people focusing on employment, education and residence. The bank's top sustainability Programme *Romani Design Social Cooperative* was named the *Most Innovative Support Programme of the Year* in the competition of social investment awards established by Hungarian Donors Forum.

Financial review

in EUR million	2012	2011
Pre-tax profit/loss	-46.2	-549.8
Net profit/loss after minority interests	-55.1	-566.6
Operating result	241.7	319.1
Cost/income ratio	41.2%	38.6%
Return on equity	na	na
Customer loans	6,185	7,088
Customer deposits	4,018	3,692

Net interest income in the Hungary sub-segment fell by EUR 67.5 million, or 16.8% (currency-adjusted: -13.8%), from EUR 402.7 million in the financial year 2011 to EUR 335.2 million in the financial year 2012. The decline in net interest income was attributable to falling margins and lending volumes as well as to the government-imposed early repayment of foreign-currency loans at non-market rates. Net fee and commission income decreased by EUR 5.9 million, or 6.0% (currency-adjusted: -2.7%), to EUR 91.9 million. This development was due to lower commission income from the lending business. The drop in the net trading result from EUR 19.1 million by EUR 35.0 million to EUR -15.9 million in the financial year 2012 was largely attributable to a change in reporting of interest income from securities held for trading and lower income from foreign exchange trading. Due to the restructuring measures implemented in the fourth quarter of 2011, operating expenses decreased from EUR 200.5 million in 2011 by EUR 31.0 million, or 15.5% (currency-adjusted: -12.5%), to EUR 169.5 million in 2012. The cost/income ratio rose from 38.6% to 41.2% in 2012.

Risk provisions fell from EUR 812.0 million in the financial year 2011 by EUR 597.0 million to EUR 215.0 million in the financial year 2012. This marked reduction was due to the one-off allocation of additional provisions in the third quarter 2011 triggered by the government-imposed conversion of foreign-currency loans. The item "other result" deteriorated by EUR 16.0 million from

EUR -56.9 million in 2011 to EUR -72.9 million in 2012. The negative effect of the banking tax in the amount of EUR 47.3 million was only partly offset by lower revaluation losses on collateral for loans and the release of restructuring provisions. In 2011, it was possible to offset the banking tax against the costs of repayment of foreign-currency loans at non-market rates. The provisions for future additional tax charges created in the first nine months of 2012 in the amount of EUR 60.6 million in connection with the government-imposed subsidisation of foreign-currency retail mortgage loans were fully released in the fourth quarter 2012. Net loss after minorities was EUR 55.1 million versus EUR 566.6 million in 2011.

Credit risk

Total exposure in the Hungary sub-segment declined by almost 13% to EUR 6.4 billion in 2012. Lending to customers declined at a similar rate from EUR 7.1 billion to EUR 6.2 billion despite the 7.1% appreciation of the Hungarian forint against the euro. As a result, the share of the Hungary sub-segment in the total customer loans portfolio of Erste Group decreased from 5.3% at year-end 2011 to less than 4.7% at the end of 2012. The distribution between retail and corporate loans remained almost unchanged. Loans to retail customers accounted for almost two thirds of the lending volume at the close of the year.

At the beginning of the year, business contracted, above all due to the possibility created by law to prematurely repay foreign currency loans at non-market exchange rates. Lower demand for loans as well as more restrictive lending policies for new loans amplified the downward trend in the further course of the year. The granting of new loans denominated in Swiss francs had already been discontinued in 2009, and in 2012, their share in total loans to customers decreased from 51.6% to 48.8%. In the loan approval process an even greater weighting was given to liquidity, to cash flows of companies and to disposable incomes of private households.

Asset quality continued to deteriorate in 2012, although the increase of the NPL ratio slowed significantly in the second half of the year. At year-end 2012, non-performing loans to customers accounted for 25.4% of the total portfolio. In contrast to preceding years, it was especially the retail business that was affected by the negative trends as regards loans to private customers as well as financing for small businesses. NPL coverage by risk provisions was 64.1% at the end of 2012.

CROATIA

The Croatia sub-segment comprises the retail and SME business of Erste & Steiermärkische Bank, commonly referred to as Erste Bank Croatia, and its subsidiary Erste Bank Montenegro. It serves approximately one million customers through a state-of-the-art network of 150 branches and well developed distribution channels, such as internet and mobile communications and 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

Following a temporary stabilisation in the previous year, Croatia's economy faced cyclical and structural headwinds in 2012. Contracting economic activity in many European Union member states adversely affected Croatia's domestic economy. Low private consumption and investment activity weighed on the performance of the economy. Real GDP contracted by 2.0% and GDP per capita stood at EUR 10,300 at the end of 2012. Domestic demand remained weak throughout the year, impacted by low consumer confidence and a further rise in the unemployment rate to 15.4%. While tourism showed gains compared to the already good season in the previous year, the comparably weak international competitiveness was reflected in insignificant net exports. European Union accession negotiations were successfully completed and Croatia is expected to join the European Union on 1 July 2013.

Reflecting higher food prices, a hike in VAT rates, and higher energy costs, inflation rose to 3.4% in 2012. Irrespective of the country's high use of the euro, the nominal exchange rate was kept relatively stable throughout the year. Fiscal policy measures contained the negative budgetary consequences of the recession. The current account deficit remained relatively low at around 0.5% of GDP.

Key economic indicators – Croatia	2009	2010	2011	2012e
Population (ave, million)	4.3	4.3	4.3	4.3
GDP (nominal, EUR billion)	44.8	44.9	44.9	44.3
GDP/capita (in EUR thousand)	10.2	10.2	10.5	10.3
Real GDP growth	-6.9	-1.4	0.0	-2.0
Private consumption growth	-7.6	-0.9	0.2	-2.7
Exports (share of GDP)	17.1	20.2	22.0	22.4
Imports (share of GDP)	33.7	33.5	35.9	36.3
Unemployment (Eurostat definition)	9.1	11.8	13.4	15.4
Consumer price inflation (ave)	2.4	1.1	2.3	3.4
Short term interest rate (3 months average)	8.9	2.4	3.1	3.4
EUR FX rate (ave)	7.3	7.3	7.4	7.5
EUR FX rate (eop)	7.3	7.4	7.5	7.6
Current account balance (share of GDP)	-5.1	-1.1	-0.9	-0.5
General government balance (share of GDP)	-4.6	-5.3	-5.3	-4.0

Source: Erste Group

Market review

Croatia's banking market reflected the macroeconomic development of the country in 2012. While loans to customers declined by more than 2%, customer deposits showed in total a growth of 3%.

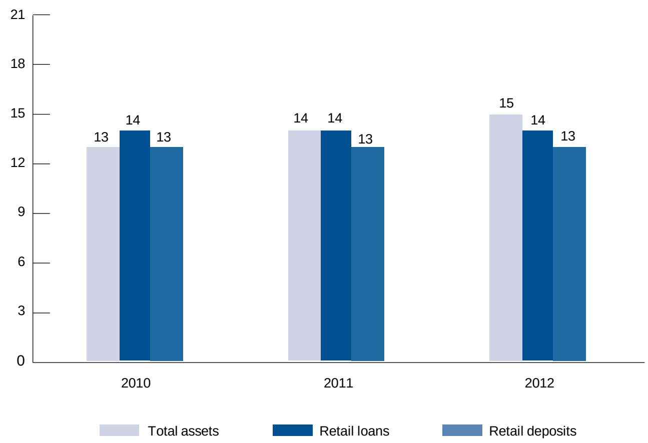
Financial intermediation – Croatia (in % of GDP)

Source: National Bank of Croatia, Erste Group

The modest development of the lending market reflected the ongoing labour-market weakness and the uncertainty regarding the crises in the euro-zone in 2012. On the lending side, the corporate sector showed more activity than private households but remained tepid. On the deposit side, households maintained a stable performance and steady growth, while the corporate sector showed a weak performance resulting in a contracting deposit base. Overall, the sector's loan- to-deposit ratio stood at 124% at the end of 2012. Profitability and capital adequacy of the Croatian banking sector remained satisfactory. With total banking assets at 120% of GDP, Croatia's level of financial intermediation remained among the highest in the region.

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, and the positive development in the retail business was reflected in growing customer deposits. The bank's loan-to-deposit ratio amounted to 150% at year-end 2012. Erste Bank Croatia remained among the top three players in the market with a total asset market share of 14.9%.

Market shares – Croatia (in %)



Source: National Bank of Croatia, Erste Group

Business review

Strategy. Erste Bank Croatia's main objective is to further enhance its market positions in the medium and long term by providing simple and transparent products and excellent banking services to retail, SME and large corporate clients with favourable risk profiles. Efficiency remains a top priority. Special emphasis is put on continuous optimisation and the 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 customer satisfaction.

Highlights from 2012

Optimisation of key processes. In 2012, Erste Bank Croatia continued its activities aiming at optimising key processes to strengthen the efficiency in service delivery further. The focus was set on payment transactions, deposits and loan approval processes as well as on non-sales activities that enable higher efficiency and an improvement in service quality and customer satisfaction. Newly implemented features for card payments allow for faster and safer transactions, and, consequently, also contribute to an improvement of the competitiveness of the bank.

Preparations for EU accession. In the light of the upcoming accession to the European Union, Erste Bank Croatia has monitored the development of European policies and has put a strong emphasis on providing its customers with the most relevant information related to this topic through its sales network across the country. As numerous subsidies are granted for the agricultural sector by the European Union, the bank focuses on targeted promotions and tailor-made credit lines for its customer base. In addition to that, customers who are about to enter international markets are supported with transaction banking initiatives. Besides cash management, Erste Bank Croatia started to offer trade finance products for importers and exporters to support this still weak but important economic sector of the country.

International and local recognition. The bank's main strengths compared to its competitors are innovation, a wide range of products and a special emphasis on customer care. Along with satisfied customers, the bank won the prestigious price *Zlatna Kuna* (Golden Weasel) competition in 2012 for the *Best Bank of the Year*, presented by the Croatian Chamber of Commerce in 2012.

Financial review

in EUR million	2012	2011
Pre-tax profit/loss	55.5	89.2
Net profit/loss after minority interests	23.7	43.6
Operating result	195.9	208.6
Cost/income ratio	40.4%	40.3%
Return on equity	8.2%	17.4%
Customer loans	5,909	5,917
Customer deposits	4,156	3,984

Net interest income in the Croatia sub-segment decreased from EUR 261.8 million in the financial year 2011 by EUR 8.1 million, or 3.1% (currency-adjusted: -2.0%) to EUR 253.7 million due to narrowing loans margins. Reflecting the October 2011 transfer of the credit card processing subsidiary to the Corporate Center segment, net fee and commission income declined from EUR 76.7 million in 2011 by EUR 11.1 million, or 14.5% (currency-adjusted: -13.5%), to EUR 65.6 million in 2012. The decrease in the net trading result from EUR 11.2 million by EUR 1.8 million, or 16.1% (currency-adjusted: -15.1%), to EUR 9.4 million was caused by negative valuation effects. Operating expenses were down by EUR 8.3 million, or 5.9% (currency-adjusted: -4.8%), from EUR 141.1 million to EUR 132.8 million, which was attributable to the transfer of the credit card processing business and lower IT expenditure.

The operating result declined by EUR 12.7 million, or 6.1% (currency-adjusted: -5.0%), from EUR 208.6 million in the financial year 2011 to EUR 195.9 million in the financial year 2012. The cost/income ratio was almost unchanged at 40.4%. Increased risk provisioning requirements in the real estate and corporate business led to a rise in risk costs by EUR 28.1 million, or 25.7% (currency-adjusted: +27.1%), from EUR 109.3 million to EUR 137.4 million in the financial year 2012. Net profit after minorities declined from EUR 43.6 million by EUR 19.9 million, or 45.6% (currency-adjusted: -45.0%) to EUR 23.7 million. Return on equity was 8.2% versus 17.4% in the financial year 2011.

Credit risk

Total exposure in the Croatia sub-segment stagnated at around 8.2% in 2012. The volume of loans to customers remained almost unchanged and amounted to EUR 5.9 billion at the end of the financial year. The composition of the loan portfolio by customer segments was equally constant. The share of private and corporate loans accounted for 44% of total loans to customers each, with the rest being loans to municipalities. In terms of Erste Group's total loans to customers, the share of the Croatia sub-segment accounted for 4.5%.

Due to the difficult macroeconomic conditions – as in the previous years, the economy also contracted in 2012 – and the persistent payment difficulties of borrowers, lending criteria remained tight. In addition to the real estate industry, this particularly affected retail customers with lower creditworthiness. In Croatia, the majority of the loans were granted in foreign currency, especially in euro. At the end of 2012, the share of foreign currency loans was 81%. This is due to the high level of "euroisation" in Croatia. As a result, loans denominated in euros are accompanied by income or deposits in euros.

The deterioration of the asset quality continued in 2012. Non-performing loans increased from EUR 795 million to EUR 1,069 million or from 12.8% to 18.1% of the total portfolio. Loans to corporate customers deteriorated in particular, irrespective of the segment (loans to small businesses and to larger companies). NPL coverage by risk provisions was 50% at year-end, and a further 50% was covered by collateral.

SERBIA

The Serbia sub-segment comprises the business of Erste Bank Serbia, which serves some 300,000 customers through a network of 68 branches and commercial centres as well as 104 ATMs. 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 amounts to some 3% in key product segments, its position is considerably stronger in other products. For example, it has a 4.7% market share as measured by number of bank cards.

Economic review

After a modest export-led economic recovery in 2011, Serbia entered into recession in 2012. Real GDP declined by 1.9%. GDP per capita stood at EUR 4,100. The contraction of the economy was mainly due to a slowdown in net exports and weak domestic demand. On the positive side, the automotive sector was supportive, with production gaining pace in the second half of 2012. Adverse weather conditions (summer drought) resulted in an agricultural production slump, contributing to the fragile economic development. The weak labour market, along with deteriorating disposable incomes in light of persistent inflationary pressures, resulted in an on-going private consumption weakness. The unemployment rate remained one of the highest in the region with 24% at year-end 2012. The current account deficit widened as automotive exports could not compensate other factors such as the weaker harvest or a steel mill closure that dragged the steel industry down. The fiscal deficit amounted to 6.5% of GDP; the increase versus 2011 was partly due to a pre-election increase in expenditures.

Inflation was on the rise after bottoming out in the second quarter but decreased, nonetheless, compared to 2011 and amounted to 7.4% in 2012. The main drivers of this development were food prices amid adverse weather conditions, oil prices, exchange rate weakness and one-offs coming from tax increases (VAT and excise tax). The exchange rate was volatile despite interventions of the national bank. After considerably depreciating against the euro until August 2012, the Serbian dinar started to strengthen again reflecting an improving trade balance as car export production started and the National Bank of Serbia's tightened reserve requirements. The National Bank of Serbia increased the base rate several times from 9.75% end of 2011 to 11.25% at the end of 2012 and 11.50% in January 2013.

The European Council granted candidate status to Serbia in March 2012, no date has yet been set for starting accession talks. In February 2012, the International Monetary Fund (IMF) suspended a USD 1.3 billion stand-by agreement due to the previous government's relaxation of the fiscal stance; although a supplementary budget was adopted in September, talks will not resume before spring 2013.

Key economic indicators – Serbia	2009	2010	2011	2012e
Population (ave, million)	7.4	7.4	7.3	7.2
GDP (nominal, EUR billion)	29.0	28.0	31.1	29.8
GDP/capita (in EUR thousand)	3.9	3.8	4.3	4.1
Real GDP growth	-3.5	1.0	1.6	-1.9
Private consumption growth	na	na	na	na
Exports (share of GDP)	20.6	26.5	27.1	24.6
Imports (share of GDP)	38.3	43.5	44.6	41.0
Unemployment (Eurostat definition)	16.1	19.2	23.0	24.0
Consumer price inflation (ave)	8.4	6.1	11.2	7.4
Short term interest rate (3 months average)	14.4	10.8	12.9	11.6
EUR FX rate (ave)	94.0	103.1	102.0	113.1
EUR FX rate (eop)	95.9	105.5	104.6	113.7
Current account balance (share of GDP)	-7.1	-7.4	-9.3	-11.3
General government balance (share of GDP)	-4.5	-4.7	-5.0	-6.5

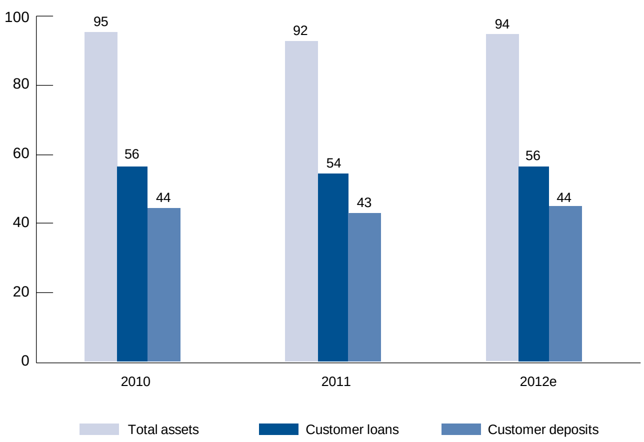
Source: Erste Group

Market review

Due to the high level of the "euroisation", the National Bank of Serbia continued to promote its strategy of encouraging the use of the Serbian dinar. In late July 2012, the new government passed a law restoring parliamentary oversight over the National Bank of Serbia, which has not happened since 2000. The legislation and the perceived weakened independence of the central bank were criticised by the IMF, the European Union and the World Bank.

Despite the weak economic development, the Serbian banking market grew substantially in terms of deposits, loans and total assets, resulting in an improved financial intermediation after the decline in 2011. The rise in lending activity of more than 9% is mainly attributable to subsidised loans.

Financial intermediation – Serbia (in % of GDP)



Source: National Bank of Serbia, Erste Group

Erste Bank Serbia remained among the country's top 15 banks as measured by total assets in 2012. Its market shares for customer loans grew in line with the market, did not change significantly and remained higher in the retail segment, being stable at 3.3%, compared to the corporate segment where market share equalled 2.7%. On the deposit side, Erste Bank Serbia's activities were mainly driven by local currency deposit taking, where its market share in retail deposits increased slightly to 2.5%, whereas its market share in corporate deposits stood at 2.7% at the end of 2012.

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 customers. 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 shares in the key retail and SME segments. To achieve this goal, the bank has developed a state-of-the-art branch network and digital distribution channels, in addition to a wide range of competitive financial products and services.

Highlights from 2012

Focus on innovation. As the oldest savings bank in the country, Erste Bank Serbia is committed to provide its customers with various ways to fulfil their financial needs. Enhancing accessibility to banking services through a variety of channels is one of the bank's key business principles. Together with other banking subsidiaries of Erste Group, Erste Bank Serbia launched *Keep the Change*, a new savings product, in 2012. Whenever paying a bill with a payment card, the customer may choose to round up the amount due, with the difference being transferred to an interest-bearing savings account.

Supporting corporate customers. Along with its continuing attention to the retail segment, Erste Bank Serbia also set its focus on corporate clients. In 2012 the bank not only participated in various syndicated loans to the largest enterprises in Serbia but also played a leading role in some of them. The European Investment Bank as well as the European Bank for Reconstruction and Development signed agreements with Erste Bank Serbia to provide funds earmarked for supporting lending to local corporates.

Successful bond placement. Erste Bank Serbia offered long-term dinar-denominated bonds on the primary segment of the Belgrade Stock Exchange. This pioneering step did not only contribute to the bank's diversification of funding sources but also had a very positive impact on the Serbian financial market as a whole.

Financial review

in EUR million	2012	2011
Pre-tax profit/loss	8.5	5.0
Net profit/loss after minority interests	7.8	3.4
Operating result	19.2	15.7
Cost/income ratio	63.6%	68.3%
Return on equity	18.8%	8.3%
Customer loans	569	486
Customer deposits	497	483

Net interest income in the Serbia sub-segment increased from EUR 36.4 million in the financial year 2011 by EUR 0.7 million, or 1.9% (currency-adjusted: +13.0%), to EUR 37.1 million in the financial year 2012. This improvement was driven by a rise in lending volumes to retail and corporate clients and wider margins in the retail business. Net fee and commission income improved from EUR 13.0 million by EUR 0.3 million, or 2.3% (currency-adjusted: +13.5%), to EUR 13.3 million. The net trading result rose by EUR 2.3 million on the back of growing income from foreign exchange business.

Operating expenses remained stable at EUR 33.6 million in the financial year 2012. The currency-adjusted rise of 10.2% was mainly attributable to personnel expenses. The cost/income ratio improved significantly from 68.3% in 2011 to 63.6% in 2012. Risk costs declined by EUR 0.5 million to EUR 9.0 million. Net profit after minorities grew by EUR 4.4 million to EUR 7.8 million. Return on equity was 18.8% versus 8.3% in the previous year.

Credit risk

In 2012, total exposure in the Serbia sub-segment increased slightly from EUR 718 million to EUR 736 million. The increase in loans to customers, however, was more pronounced with a rise by EUR 84 million to EUR 569 million. With a share of 0.4% in total customer loans, the Serbia sub-segment was of only minor significance to Erste Group. Viewed by customer segments, business volume growth concentrated on corporate loans. Compared to other markets in Central and Eastern Europe in which Erste Group operates, the share of loans to corporate customers in the total loan portfolio was above average at nearly 64%.

A major share of the loans was denominated in foreign currency. Its share in the total loan portfolio increased from 76.1% to 79.2% in 2012. This is due to the high level of "euroisation" in Serbia. As a result, loans denominated in euros are accompanied by income or deposits in euros. The shift in the breakdown of the portfolio was to some extent also caused by the appreciation of the euro against the Serbian dinar by 5.7%.

Asset quality remained stable in 2012, with the ratio of non-performing loans to the total portfolio rising marginally by 0.1 percentage points to 12.0%. The individual customer segments showed an uneven development: while the quality of loans to private individuals deteriorated, loans to corporate customers improved significantly. Nonetheless, the NPL ratio for loans to corporates (13.6%) at year-end was still much higher than for loans to private households (9.6%). NPL coverage by risk provisions excluding collateral was 84.1% at year-end 2012.

UKRAINE

The Ukraine sub-segment encompasses the business of Erste Bank Ukraine, which served approximately 300,000 customers through a country-wide network of 120 branches in 2012. The bank 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 the Ukraine is not seeking European membership in the medium term, Erste Group does not regard the country as a core market. Consequently, in December 2012 Erste Group has entered into an agreement to sell Erste Bank Ukraine. The closing of the transaction is expected to occur in the first half of 2013.

Financial review

in EUR million	2012	2011
Pre-tax profit/loss	-44.1	-23.6
Net profit/loss after minority interests	-44.3	-23.1
Operating result	-26.0	-14.5
Cost/income ratio	215.0%	142.3%
Return on equity	na	na
Customer loans	426	497
Customer deposits	274	190

Declining lending volumes and margins as well as lower income from the securities business caused net interest income in the Ukraine sub-segment to decrease from EUR 32.6 million in the financial year 2011 by EUR 9.0 million, or 27.6% (currency-adjusted: -32.3%), to EUR 23.6 million in the financial year 2012. Increased income from payment transfers led to an improvement in net fee and commission income by EUR 1.3 million to EUR 6.2 million. Impacted by lower income from foreign exchange businesses, the net trading result declined by EUR 4.0 million from EUR -3.2 million to EUR -7.2 million.

Operating expenses decreased by EUR 0.2 million, or 0.4%, to EUR 48.6 million. Currency-adjusted, operating expenses fell by 6.8%. The increase in risk provisions by EUR 5.0 million, or 46.7% (currency-adjusted: +37.2%), to EUR 15.7 million resulted from direct write-offs. The item "other result" deteriorated by EUR 4.0 million to EUR -2.4 million in 2012 due to losses on disposals related to the available-for-sale portfolio. Net loss after minorities was EUR 44.3 million versus EUR 23.1 million in 2011.

Because of growing economic and political uncertainty in Ukraine and the strategic decision to withdraw from Ukraine, Erste Group signed an agreement in December 2012 on the sale of Erste Bank Ukraine to the owners of FIDOBANK. The resulting loss of EUR 75.0 million is reported under "other result" in the Corporate Center segment. The formal approval of the transaction by the market supervisory authorities in Austria and Ukraine, and hence the closing of the transaction, is expected to be effected by the end of the second quarter of 2013.

Group Corporate and Investment Banking (GCIB)

The Group Corporate and Investment Banking segment includes Erste Group's fully divisionalised large corporate (Group Large Corporates), investment banking (Group Investment Banking), real estate (Erste Group Immorent) and the International Business as well as, from the second quarter of 2012 onwards, equity capital markets. These provide the full range of banking services to large corporate customers as well as institutional and public sector customers. The division employs 1,150 professionals, who combine industry and product expertise with local knowledge, and offers services in debt financing, equity capital markets, mergers and acquisitions, debt advice, acquisition finance, infrastructure finance, project finance, syndication, real estate development, lending and leasing, as well as transaction banking. The division cooperates closely with the capital markets as well as the retail and SME business lines.

Business review

Segment strategy. Building on its strong presence in retail and SME banking, Erste Group aims to further expand its footprint in the CEE region's markets for large corporate and investment banking. The GCIB division has continued to pursue a selective growth strategy reflecting the differing market conditions in complex environments due to restrictive banking regulations.

Deepening relationships with core customers by combining a sector-based coverage approach and a broadening the product range to match the customers' needs remains key for the Group Large Corporates business.

Erste Group Immorent (EGI) covers the full real estate value chain (lending, leasing, investment, project development and construction services) for commercial, residential and municipal projects, as well as the infrastructure business across all countries. As a result of a restrictive approach to new business and a focus on core markets and core customers, the size of the portfolio continued to decline.

Erste Group's investment banking business line specialises in corporate finance transactions, merchant banking, and structured trade finance. To utilise synergies between Equity Capital Markets and Mergers & Acquisitions, the local teams were merged and to a large extent restructured. The equity capital markets specialists advise on and execute initial and secondary public offerings, private placements and accelerated book buildings, and also advise on share buy-backs and delistings. The focus of the leveraged finance activities is on providing acquisition finance for leveraged buy-outs by private equity funds in CEE and financing solutions for leveraged corporates as well as on debt restructuring of corporate customers. The specialists for mergers and acquisitions provide buy- or sell-side advisory to corporate or institutional customers seeking to buy or sell companies in CEE. Services include valuations, bidding strategies and process execution. In December 2012 a local Corporate Finance unit was opened in the Hong Kong branch, reflecting the growing importance of Asian customers for the equity capital markets and mergers & acquisitions business.

The International Business unit covers all lending and investing activities outside the Group's core markets (including the branches in London, Hong Kong and New York) and is responsible for business development with, as well as credit line management for, banks and non-banking 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 2012

Group Large Corporates aims for balanced portfolio growth. Having successfully implemented the sector-based coverage approach, the Group Large Corporates coverage teams, acting and cooperating across borders, managed to stabilise gross income. The economic environment of 2012 was mainly defined by restrictive banking regulations and an economic downturn. One response to this development was the group-wide product offering in the transactional banking area.

Erste Group demonstrated its syndicated lending capabilities in the CEE region. In addition and among other transactions, Erste Group successfully acted as bookrunner and mandated lead arranger in a 1.5 billion benchmark bond transaction of OMV, the leading Austrian gas and oil company. Acting in the same role, the bank also arranged a EUR 750 million benchmark bond transaction for Telekom Austria Group. Česká spořitelna was joint bookrunner and mandated lead arranger for EP Energy, a Czech producer of electricity and supplier of thermal energy, in a EUR 500 million bond issue as well as a EUR 1 billion club loan. In addition, the German Phoenix Group, one of the most important pharmaceuticals distributors in the region, mandated Erste Group as bookrunner and lead arranger in a EUR 1.35 billion syndicated loan facility.

Erste Group Immorent's focus remains on existing real estate portfolio. In 2012, Erste Group Immorent followed a prudent and selective market approach focusing on core markets and core customers due to the on-going challenging conditions for both the banking industry and the real estate business. As a result, the portfolio did not show significant new business activity. The overall financing exposure decreased to approximately EUR 11.5 billion. More than 90% of EGI's total exposure is located in Erste Group's core region with more than half of it being attributable to Austria, the Czech Republic, and Slovakia. Overall, the majority of EGI's business is located in or in close proximity to the major economic centres of the region.

Benchmark deals regarding real estate financing included the financing of university and research facilities for the government of Lower Austria, the financing of the office building of Manner (a traditional Austrian sweets manufacturer) in Vienna, the financing of the Forum Business centre for HB Reavis in Slovakia as well as the Foreascea Business Park in Romania. EGI generated additional income from project management, such as the office projects Futurama and Moulikova in Prague. The current main project is the development of Quartier Belvedere in Vienna. In June 2012, the cornerstone of Erste Campus (Erste Group's future headquarters in Vienna), which is being constructed and managed by EGI, was laid. As one of 1,000 brands reviewed, EGI won the *Most Valuable Real Estate Brand 2012* award in the category real estate bank from the European Society for Real Estate Brand Monitoring.

Investment Banking franchise is growing. Erste Group's investment banking competitive advantage stems from delivering professional service at an international standard, efficient product organisation that builds upon local expertise, and very close cooperation between GCIB's customer coverage teams and the local corporate banking teams.

Cost reductions were achieved in corporate finance as a result of the integration of Equity Capital Markets and Mergers & Acquisitions. In addition, both business lines successfully closed deals throughout Erste Group's core markets with a particular focus on Austria and Romania. The newly created Merchant Banking unit comprises all activities related to private equity as well as the support for leveraged finance transactions for large corporate customers. Thanks to the establishment of a coverage desk for private equity funds in the London branch, Erste Group ensured a clear focus on targeting its customer base and was able to provide a better service. In line with Erste Group's strategy, new business is exclusively generated in the core region. The Western European LBO loan book was substantially reduced and cleaned up through repayments and selective sales of assets. New leveraged finance transactions are handled by specialised teams in Vienna and Prague in close cooperation with the Group Large Corporates relationship managers. The volume of new transactions amounted to approximately EUR 275 million.

International Business continued portfolio reduction. Traditionally, the business objective has been to provide risk-return diversification to complement Erste Group's performance. As a result of amortisations and through on-going efforts of divestment, the International Business portfolio was significantly reduced in 2012. Given Erste Group's strategic business objective to adjust or exit non-core activities, the International Business unit will continue in its efforts to divest.

Financial review

in EUR million	2012	2011
Pre-tax profit/loss	-58.3	116.4
Net profit/loss after minority interests	-55.6	73.7
Operating result	390.5	341.3
Cost/income ratio	33.5%	35.9%
Return on equity	na	3.8%
Customer loans	17,928	19,805
Customer deposits	5,517	5,493

Net interest income decreased by EUR 47.3 million, or 8.7%, to EUR 495.9 million in the financial year 2012. This development was exclusively attributable to sharply lower volumes in International Business and the real estate and Investment Banking business units, which were not offset by the stable development in the large corporate business. Net fee and commission income decreased by EUR 31.7 million, or 26.7%, to EUR 87.1 million. This was attributable to a reduction in new business and declining income from real estate project development activities. The net trading result rose by EUR 133.6 million to EUR 4.4 million in 2012. In 2011, the net trading result had been impacted by negative valuation results relating to the International Business unit's CDS investment portfolio, which has meanwhile been closed out completely. Operating expenses increased by EUR 5.4 million, or 2.8%, from EUR 191.5 million to EUR 196.9 million. This development was driven primarily by organisational change (i.e. the shifting of units from the Group Markets segment to Group Corporate and Investment Banking).

The operating result improved by EUR 49.2 million, or 14.4%, from EUR 341.3 million in 2011 to EUR 390.5 million in the financial year 2012. Risk provisions increased by EUR 169.0 million, or 94.8%, to EUR 347.2 million. This was mainly due to higher risk provisions in the real estate business and in the large corporate business in Austria and Romania. Negative valuation results and losses on disposals relating to the real estate business and from the continued reduction of International Business assets led to a decline in the "other result" item by EUR 54.9 million to EUR -101.6 million. Net profit after minorities declined by EUR 129.3 million from EUR 73.7 million in the financial year 2011 to EUR -55.6 million in the financial year 2012. The cost/income ratio improved from 35.9% in 2011 to 33.5% in 2012.

Credit risk

As in previous years, total exposure in the Group Corporate & Investment Banking segment decreased in 2012 and amounted to EUR 26.1 billion at the end of 2012. The decline was mainly due to the planned reduction in the International Business, which is not part of Erste Group's core business. Group Real Estate also declined, which reflects the weakness in the real estate industry in most countries of Central and Eastern Europe. Group Large Corporates, which is the most important business area of GCIB, did not show much dynamics during the year. Credit exposure stagnated at EUR 13.6 billion. One reason was the attractive situation on the capital markets, which made it possible for several larger companies to refinance by issuing bonds.

Loans to customers in the GCIB segment decreased quite significantly from EUR 19.8 billion to EUR 17.9 billion in 2012. The share of the GCIB credit portfolio in the total credit portfolio of Erste Group dropped from 14.7% to 13.6%. Group Large Corporates and Group Real Estate accounted for over 95% of total loans to GCIB customers. In International Business, loans to non-banks play only a minor role, with the majority of the portfolio consisting of bonds and financing to credit institutions.

Almost 94% of total loans in GCIB related to corporate lending and project financing at the end of 2012, with the rest being loans to the public sector. 79.2% of the GCIB portfolio was denominated in euros, loans in US dollars continued to decline. The share of secured loans increased.

In 2012, the quality of the portfolio deteriorated and the share of non-performing loans in the total loan portfolio increased from 6.4% to 7.4%. This was mainly attributable to defaults of only a few very large customers in the area of Group Large Corporates, while NPLs in Group Real Estate declined. NPL coverage by risk provisions increased considerably from 54.6% at the end of 2011 to 67.2% at the end of 2012.

Group Markets (GM)

The Group Markets segment comprises the divisionalised business units Group Treasury and Group Capital Markets (GCM). In addition to Erste Group Bank AG's own treasury activities, this segment encompasses the treasury units of the CEE subsidiaries and of the branches in Hong Kong and New York, the branches in Berlin and Stuttgart, the investment banks in Poland, Hungary and Turkey and 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 designs and develops products that cater to market demand in Erste Group's core markets.

Business review

Strategy. The focus in the Group Markets segment 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 Erste 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 on-going 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. Corresponding to Erste Group's strategy, treasury products are not only offered to corporate or institutional customers or sovereigns in CEE but also to retail customers. The offered products – especially for the retail business – are easy to understand and have a strong focus on safe investing. To serve institutional customers, designated teams have been established in Vienna and also in Germany, Poland, Turkey and London. These teams offer a selective product range with a clear focus on CEE. The goal is to combine the best of the various core markets while benefiting from synergies. In addition, Erste Group's customers benefit from market reports of Group Research. The research reports complement the comprehensive support offer and address both retail and institutional customers.

Highlights from 2012

Leading position in CEE new issues. Debt Capital Markets managed to continue its success and for the third consecutive year held the number one position for eurobond issuance in Austria and in CEE. Despite the difficult market environment, Debt Capital Markets successfully placed numerous bonds through its well-established sales network. Sales efforts in Poland were particularly successful. Erste Group was the most active foreign market maker and successfully acted as book runner for a benchmark bond issue of EUR 1.5 billion for the Republic of Poland.

New opportunities for growth. In 2012, business activity increased substantially in Germany, where Erste Group serves institutional customers as well as savings banks through the branches in Berlin and Stuttgart. The offer comprises mainly new issues, bonds and promissory notes in Erste Group's core markets. To strengthen institutional customers business in Asia, the focus was also placed on the development of the branch in Hong Kong. The licensing proceedings with the Securities and Futures Commission Hong Kong were successfully completed.

Increased focus on customer relationships. Success is a result of well managed customer relationships. In order to place an even stronger focus on the financial needs and expectations of customers, Erste Group launched the *Customer Orientation Initiative*. This project aims at identifying customer needs and optimally allocating the resources to better meet the respective needs of retail, corporate and institutional customers in the future.

Financial review

in EUR million	2012	2011
Pre-tax profit/loss	297.4	232.6
Net profit/loss after minority interests	227.6	166.6
Operating result	295.4	234.4
Cost/income ratio	42.2%	51.1%
Return on equity	65.0%	53.4%
Customer loans	77	225
Customer deposits	2,768	2,459

Net interest income decreased by EUR 13.7 million, or 6.9%, to EUR 183.7 million in the financial year 2012, which was primarily attributable to the global money market & government bonds business units. Net fee and commission income amounted to EUR 124.7 million. The decline by EUR 1.9 million, or 1.5%, versus 2011 resulted mainly from the asset management business. The net trading result rose by EUR 47.7 million, or 30.7%, to EUR 202.9 million, mostly on the back of the good performance of the credit and rates trading business units. Operating expenses were reduced by EUR 28.9 million, or 11.8%, to EUR 215.9 million. This decline was due to cost-cutting across all business units and to organisational changes (transfer of units from the Group Markets segment to Group Corporate and Investment Banking). Operating result improved by EUR 61.0 million, or 26.0%, to EUR 295.4 million in the financial year 2012. The cost/income ratio improved from 51.1% to 42.2%. Net profit after minorities rose by EUR 61.0 million, or EUR 36.6%, to EUR 227.6 million. Return on equity stood at 65.0% (2011: 53.4%).

Corporate Center (CC)

The Corporate Center segment is divided into two parts. Effects from intragroup eliminations between segments and sub-segments are reported separately as intragroup eliminations. Intragroup eliminations consist of internal revenue and expenses charged between sub-segments and eliminated at group level. The underlying transactions mainly relate to internal services from IT, procurement, facility management services to banking subsidiaries, rental income from operating lease and investment properties and derivative businesses. Intragroup elimination between businesses within the same sub-segment is allocated to the respective sub-segment.

The Corporate Center segment also comprises balance sheet management, dividends (elimination of dividends at group level) and refinancing costs of fully consolidated subsidiaries, general administrative expenses for group center functions that cannot be directly allocated to another sub-segment, and the Austrian banking tax payable by Erste Group Bank AG. In addition, the Corporate Center segment includes the results of non-profit companies (particularly service businesses) and subsidiaries that cannot be directly allocated to another sub-segment, straight-line amortisation of customer relationships (particularly, Banca Comercială Română, Erste Card Club, and Ringturm KAG), as well as one-off effects which, in order to ensure comparability, are not allocated to any particular sub-segment. Moreover, the Corporate Center segment includes the equity that is not allocated to any other segment or sub-segment.

Financial review

in EUR million	2012	2011
Pre-tax profit/loss	-357.2	-1,327.4
Net profit/loss after minority interests	-227.5	-1,207.1
Operating result	-5.5	-86.4
Cost/income ratio	104.5%	274.8%
Return on equity	na	na

The rise in net interest income from EUR 112.1 million to EUR 237.2 million was mainly driven by an increase in structural contributions from asset/liability management. The positive development of net fee and commission income was largely attributable to lower expenditure in connection with own issuance activity. The net trading result dropped from EUR 37.5 million to EUR -31.5 million due to lower valuation effects in asset/liability management.

The item "other result" included amortisation of customer relationships in the amount of EUR 69.2 million, goodwill adjustments for the Romanian subsidiary Banca Comercială Română in the amount of EUR 469.4 million and investments in Austria in the total amount of EUR 45.5 million, proceeds from buying back tier 1 and tier 2 instruments (hybrid capital and subordinated bonds) in the amount of EUR 413.2 million, and gains on the sale of real estate in the amount of EUR 38.2 million. Banking tax paid by the Holding (Erste Group Bank AG) in the amount of EUR 146.9 million (2011: EUR 117.5 million) as well as the loss on the sale of Erste Bank Ukraine in the amount of EUR 75.0 million were also reported in the item "other result".

Commitment to society

Almost 200 years ago, the very founding concept of Erste österreichische Spar-Casse already embraced the idea of contributing to the common good. Erste Group has expanded its core activities from those of a traditional savings bank focused on retail lending and deposit-taking to include those of an international bank providing financial services to all sectors of the economy. Unlike the operations of investment banks or many other financial institutions, Erste Group's business has always been firmly embedded in the real economy. Customers' savings deposits fund the loans for housing construction or investments by companies. This is how Erste Group creates sustainable value for society.

Erste Group's *MehrWERT* (added value) sponsoring programme is further visible proof of its commitment to society. For Erste Group, sponsoring is the voluntary promotion and support of institutions, initiatives and projects in the areas of social welfare, culture and education. The bank's support for specific sports likewise has a long tradition. Erste Group does not see sponsoring as a covert form of advertising, nor as a marketing instrument or some kind of lobbying intended to generate profits or other advantages of a commercial nature, but as added value that is extracted from business activities and passed on to society. Erste Group's *MehrWERT* sponsoring programme represents its dedication to social responsibility and to values it considers worthy of support above and beyond its business activities.

SOCIAL ACTIVITIES

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

Caritas and Erste Bank Oesterreich have been partnering for many years. In widely ranging joint efforts, the fight against poverty in Austria is one of the key concerns. Erste Bank Oesterreich sponsors, among other things, the annual domestic aid and Eastern Europe campaigns. The *Coffee to Help* campaign has become a regular annual event. In 2012, staff in branches, various departments and savings banks again invited customers and colleagues for coffee and collected donations for the charity *Kinder in Not* (Children in Need). Support for the *youngcaritas.at* project was likewise continued. Young people aged 15 to 24 were acquainted with the work of Caritas and gained experience in social work by, for example, organising school tutoring or collecting food. Since 2003, Erste Bank Oesterreich, the savings banks and s Bausparkasse have been sponsoring Hilfswerk Österreich, one of the largest non-profit providers of health care, social and family services in Austria. Erste Bank Oesterreich again supported the association 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.

Česká spořitelna partnered with the VIA Foundation to set up a series of seminars for social enterprises and non-profit organisations in efficient and socially responsible business management. The aim is to reduce their reliance on donations and help them achieve the long-term goal of economic independence.

Slovenská sporiteľňa, for several years, has been supporting the Society of Friends of Children from Children's Homes, a non-profit organisation that runs a scholarship programme called *Smile as a gift* which enables children who have grown up in children's homes to go to university. Erste Bank Croatia likewise funds university scholarships for young people from socially disadvantaged backgrounds under the *Stepping into Life* programme.

At Erste Bank Hungary, social activities focused on helping children and adolescents, improving living standards of disadvantaged people and health-related topics (primarily through encouraging healthy lifestyles and initiatives to prevent disease). The bank cooperated with many local partners, among them SOS Children's Villages and the Order of Malta.

BCR launched *www.BursaBinelui.ro*, which in 2012 was the only no-fees platform for donations in Romania. Therefore, even small donations fully benefit the projects selected.

ART AND CULTURE

In 2012, Erste Group again supported and promoted partnerships between cultural and social institutions intended to develop common ideas and strategies for deepening the understanding and appreciation of art.

Erste Bank Oesterreich acted once more as 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. The focus of the activities of *Jeunesse* is on actively promoting young artists and giving them opportunities to perform professionally as well as on developing new concepts for teaching music appreciation. One goal of this cooperation is to give 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 Bank Oesterreich also works with charitable organisations such as Caritas to implement specific measures for bringing music to people.

For the ninth time, Erste Bank Oesterreich was the principal sponsor of *Viennale*, Austria's largest international film festival. For the second time, Erste Bank Oesterreich awarded the MehrWERT film prize to a film presented at Viennale by an Austrian film director.

As a long-standing partner of the *festival for fashion & photography* held each spring, Erste Bank confers the Erste Bank Fashion Award to outstanding designers from Central and Eastern Europe. With the support of Erste Bank Oesterreich, each year selected designers are offered the opportunity of working on projects as part of Vienna Design Week. In 2012, five projects were developed with a focus on social networking.

Acting again as principal sponsor in 2012, Erste Bank Oesterreich enabled galleries from Central and Eastern Europe to take part in Viennafair.

Since 2008, Erste Bank Hungary has been sponsoring *Művészetek Palotája* (the *Palace of Arts)*, a centre for arts recognised and acclaimed both in Hungary and internationally. In Hungary, too, the main focus is on young talents. The best in their respective disciplines are awarded prizes: the *Junior Príma Award* for young journalists, *Erste az elsőkért* for students of the Liszt Academy of Music, and *Hungarian Press Photo* for photographers under the age of 30.

Česká spořitelna has for many years been one of the most dedicated sponsors of music in the Czech Republic. The bank has supported classical music festivals such as *Pražské Jaro* (the *Prague Spring Music Festival)* and *Smetana's Litomyšl*, an opera festival, as well as *Colours of Ostrava*, a festival known for its musical diversity and mix of genres from all over the world, the *Mezi ploty (between the fence)* theatre and music festival and the *United Islands* festival. Fashion and design were sponsored through the *Designblok* exhibition and the *Czech Grand Design Award*.

Through its *Centrifuga* cultural programme, Erste Bank Serbia supported a large number of local cultural and social initiatives across the country and also continued its support for talented young people through the *Klub 27* project. Slovenská sporiteľňa sponsored the *Bratislava Jazz Days*, an annual international festival of jazz music, and continued its long-term co-operation with five theatres in Martin, Nitra, Prešov and Bratislava.

Erste Bank Croatia hosted *Erste fragmenti*, an annual competition for up-and-coming artists under the age of 30. The bank also buys award-winning works of art and funds a one-year scholarship for one art student.

Kontakt, the art collection of Erste Group, concentrates mainly on art created in Central, Eastern and Southeast Europe. The collection reflects the political and historical transformation in Europe and the significance of art against the background of specific cultural, social and economic developments in post-communist countries.

FINANCIAL LITERACY

Improving financial literacy is fundamental to economic growth and to the long-term prosperity of communities. The underlying concept is to empower people to make informed decisions about the management of their money. Initiatives to increase the understanding of finance are well aligned with Erste Group's savings bank tradition.

Financial education starts at an early age. Erste Bank Oesterreich initiated a travelling exhibition on the topic of money for a target group of children between 6 and 12. The exhibition explores the basic terms of finance. It explains how money came into being, what it is for and how it is produced. In 2012, it was on display at the Children's Museum in Bratislava and at the National Museum of Romanian History in Bucharest.

Erste Bank Oesterreich has launched a programme for pupils and apprentices that covers and communicates very vividly, by role playing, matters such as financial planning, recording income and expenses, and what banks actually do. To help parents and teachers, Erste Bank Oesterreich has published a pocket money guide and produced *Sparefroh TV*, a film series in three episodes. A pocket-money checking feature allows young people to test their money handling skills online. Slovenská sporiteľňa also promotes educational projects for schools and universities and, since 2012, has been offering the *One Million* online game, which conveys financial know-how in an easy and fun way to pupils and others interested in this subject.

On *www.csas.cz/mladi*, Česká spořitelna provides information about financial products and instruments to young customers. *Moneymanie.cz* is an educational internet portal operated by the bank not only for children and adolescents but also for parents and teachers. Children up to the first level of primary school are the target group of *Spořínkov* (*www.csas.cz/Sporinek*). In collaboration with Terraklub, Česká spořitelna published a school atlas of today's financial world.

Erste Bank Hungary runs a financial literacy programme named *Pénzügyi Kisokos (Financial Guide)* and a non-branded financial guide website explaining the basic terms of finance to pupils.

Erste Bank Croatia and Erste Bank Serbia offer seminars on personal finance management for people who wish to enhance their financial expertise. Banca Comercială Română sponsors a pool of coaches working to advance financial literacy. Erste Group Ukraine supported an awareness-raising campaign on financial literacy.

CORPORATE VOLUNTEERING

All of Erste Group's local subsidiaries support community projects not only through cash contributions, donations in kind and matched giving. In addition, employees are also encouraged and empowered to engage in corporate volunteering, frequently in co-operation with long-term partners or through the banks' financial literacy initiatives. Personal commitment and practical help make a more direct impact than gifts of cash. Donating (free) time means personal confrontation with the lives of other people, often with suffering and injustice, but also with hope, courage and success.

The *Erste Time Bank* initiative has been operating as an exchange portal since early 2012. Through this portal, employees of Erste Group Bank AG and Erste Bank Oesterreich who are interested in voluntary work are matched with organisations that rely heavily on the efforts of volunteers and are regularly looking for support. Staff and pensioners donate their free time to engage in voluntary activities. During the first 12 months, 800 people registered. Actual support was provided in 130 cases. Initial feedback from participating staff and NGOs was very positive. *Erste Time Bank* has been particularly successful in filling short-term needs for volunteers.

In 2012, Erste Bank Oesterreich also continued its collaboration with *Vernetzte Welten* in Austria. Under this programme, employees work for NGOs for three to four months on selected projects at the expense of the bank. Apart from providing staff to organisations, this initiative is also designed to advance personal development. Experience gained in dealing with unusual tasks and working conditions has an indirect positive effect on the bank as a continuously learning organisation.

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

In addition, volunteers offer debt prevention workshops for young people under the *I €AN* (I can) initiative with the motto "We come and see you to make sure you will never have to come and see us!" Financial literacy education at schools was also continued successfully, with a large number of workshops held at secondary schools, colleges and vocational schools as well as at businesses that train apprentices. The team of coaches was substantially enlarged at the beginning of the 2012/13 school year.

Česká spořitelna continued its aid programme. In addition, in 2012, more than 2,000 employees used the opportunity to take two days off, with normal pay, to do voluntary work for the community.

In January 2012, Banca Comercială Română and the Mereu Aproape Foundation organised relief shipments to Vrancea, a city that was heavily affected by snowfall. Bank employees distributed 4.8 tonnes of food to about 2,400 people in need. The bank encouraged employees to submit projects proposing voluntary efforts to tackle problems in their local communities. Of the forty projects submitted, five were chosen for implementation in 2013.

Employees of Erste Bank Croatia, Erste Bank Hungary and Erste Bank Serbia supported aid projects, schools and needy families by renovating buildings, cultivating gardens and repairing playgrounds. One key activity in Ukraine was to provide support for orphans, including the organisation of drawing and dancing classes and parties for children.

SPORT

The capacity of sports to bring people together while encouraging them to pursue common goals embodies an idea that is also central to Erste Group's corporate philosophy. Erste Group has been supporting 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 these 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 amateur initiatives such as the *BCR Tennis Partner Circuit* in Romania to professional tennis. In 2012, Erste Bank Oesterreich was again the main, name-giving sponsor of Austria's most important tennis tournament, the Erste Bank Open in Vienna.

In 2012, Erste Group sponsored a large number of running events, including many in support of social projects such as the *Vienna Night Run* in Austria, the *Bratislava Kids Run* in Slovakia and the *Homo si Tec Marathon* in Croatia. By joining in, thousands of entrants promoted their own health while benefiting the common good at the same time. *Erste Bank Sparkasse Running* 2012 comprised more than 200 running events and more than 100,000 participants dashing some million kilometres through Austria. As Austria's largest running initiative, the Erste Bank Sparkasse Running community also maintains its own online presence on Facebook.

Since 2003, Erste Bank Oesterreich has been a 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 of young athletes in Austrian sports. With more than 1,000 schools participating, these are the largest youth competitions in Austria.

If you are interested in the many other activities being pursued at Erste Group, you will find more information on the subsidiaries' websites in the respective local language and some also in English.

Supporting our customers

RELATIONSHIP BANKING

Erste Group puts customers and their interests at the centre of attention. The bank strives to build and maintain long-term relationships with its customers by offering appropriate and understandable products and advice. This includes constant efforts to improve service quality and to tailor the product portfolio to the demands and requirements of the customers. Among the factors that are taken into account are financial literacy and experience, financial position and risk appetite of the individual customer. Providing reliable, high-quality financial services to all customers characterises the customer relationship concept. The focus is clearly on the relationship with the customer, not on the transaction. With a view to retaining trust and loyalty, Erste Group's approach is to "pull customers" rather than "push products".

ACCESSIBILITY

Customers' expectations are subject to constant change. Erste Group aims at fulfilling the demands that customers place on banks. With social media and virtual contacts gaining in importance, dialogue with customers is no longer limited to the bank's counter in branches or to phone calls. Digital channels have become as natural to many customers as barrier-free access to branches. Personal contact will remain important to clarify questions related to financial topics face-to-face. But it is no longer necessary to go to the bank to carry out each and every financial activity. Customers wish and can perform many banking transactions conveniently without any restrictions in terms of place or time through the use of smartphones or the internet.

Accessibility to various banking services through multiple channels improves the level of convenience for customers. Technology is playing a pivotal role in improving customer satisfaction. At Erste Group great value is attached to technical improvements and innovations to meet customers' expectations even better.

Even at a time when electronic banking is gaining in importance, the branch network with its facilities still remains a key access point for customers. In this context, emphasis is also put on overcoming language barriers. At 22 branches of Erste Bank Oesterreich in Vienna, Mödling and Schwechat, advisory services are provided by multilingual staff. Banca Comercială Română offers product and service information in Hungarian as well.

For blind and partially sighted people, Erste Bank Oesterreich operates at least one self-service machine with auditory instructions in each of its branches and in all VIVA shops of its cooperation partner OMV (in total, approximately 180 at Erste Bank Oesterreich branches and about 175 at VIVA shops). The savings banks are also upgrading their ATMs to include this feature. In addition, blind and partially sighted people are issued with bank cards printed in Braille.

At Erste Bank Serbia, ATMs also have Braille lettering. 86 branches of Erste Bank Hungary are equipped with self-service machines featuring individual control of colour output and light intensity. The websites of Erste Group's local banks Erste Bank Oesterreich, Erste Bank Hungary, Erste Bank Croatia, Erste Bank Serbia, and Banca Comercială Română have been adapted to allow a choice of three character sizes.

Access is now barrier-free at all new or remodelled branches of Erste Bank Serbia and at two out of three branches of Erste Bank Hungary.

In six of its branches, Erste Bank Serbia offers special advisory services to people who are deaf or hearing-impaired.

CUSTOMER SATISFACTION

Erste Group is committed to continuously improve the customer experience and the quality of its services. To put even more emphasis on consumer orientation, the independent Group Customer Experience-Unit was established, combining marketing research, service quality management and complaint-handling functions. This setup has increased Erste Group's ability to understand customer needs and expectations and act upon them in the most timely and effective manner, resulting in an improved customer experience and higher customer satisfaction. Across the Group, more than sixty customer experience projects were successfully completed in 2012.

To assess customer satisfaction, 600 telephone interviews are conducted among local customers in each of Erste Group's markets on a quarterly basis (300 in Ukraine) with the help of *Bank Market Monitor*. This survey provides data for performance comparisons both across Erste Group and with the three leading competitors in each market. To ensure the quality of the customer experience and services, the high standards of the offered products are periodically reviewed. For this purpose, Erste Group is also initiating an innovative product approval process that each newly developed product has to pass before being launched on the market.

In this context, Erste Group is particularly pleased about the awards won by its local banks in Central and Eastern Europe, which demonstrate the high level of customer satisfaction. At the same time, Erste Group regards it as its duty to continuously strive to maintain the status as one of the best and most trusted banks. The fact that all its banking subsidiaries operate under a brand name of very high recognition value and trustworthiness represents a significant competitive advantage in the banking business, which, among other ways, has manifested itself in solid deposit inflows at times of economic uncertainty.

In recognition of the international service requirements of wealthy individuals and families, the private banking strategy has been implemented across Erste Group. The aim is to offer client service excellence for private client investment management, endowments and estates. Erste Group offers private banking in Austria, the Czech Republic, Slovakia, Romania, Hungary and Croatia. The focus of the activities and services offered is on long-term wealth creation and investment management, estate planning, philanthropy, trust and foundation management, corporate asset management and special and wholesale funds. By offering this extensive portfolio, Erste Private Banking successfully positioned itself as market leader in Central and Eastern Europe. Erste Group's private banking is one of the few Central European institutions that – based on forward-looking research and asset analysis – offers individual solutions for complex needs, such as private banking services for the management of family assets, including the development of sustainable long-term wealth management plans.

ETHICAL INVESTING

Erste Asset Management was an early mover in anticipating the growing needs and intentions of investors to increasingly emphasise environmental and socio-ethical aspects in their investment decisions. Over the past decade, Erste Group has used these changes as an opportunity to develop the largest variety of sustainable funds in Austria. Since 2012, all asset management entities have been operating under the umbrella of Erste Asset Management UN PRI Signatories and have committed themselves to acknowledging the United Nations-backed Principles of Responsible Investment (PRI). In 2011, it had already been decided to prohibit investments in companies that are active in the field of controversial weapons such as land mines, nuclear weapons or cluster bombs for all actively managed mutual fund portfolios.

Erste Asset Management is an acknowledged provider of sustainable investment funds in Austria and in the CEE region. In 2012, the total volume of funds under management by Erste Asset Management was EUR 46 billion. Of this, EUR 14.5 billion relate to actively managed funds, which are subject to the screening of banned weapons. In 2012, sustainable assets under management reached EUR 2 billion, an increase of 20% compared to 2011.

At the beginning of 2012, the position of a *Chief Sustainability Investment Officer* was established to embed sustainability aspects even more firmly into Erste Asset Management's range of funds. In 2012, the sustainability specialists managed ten investment funds as well as several externally mandated portfolios. The managed mutual funds comprised three bond funds, four regional stock funds, a microfinance fund of funds and two theme funds for climate protection and the environment (the latter two funds were managed in cooperation with WWF Austria). In 2012 *Erste Responsible Balanced*, a new asset allocation fund with a focus on sustainability, was launched.

FINANCIAL INCLUSION

Offering simple banking services to the otherwise unbanked part of the population was among the main reasons behind the foundation of Erste österreichische Spar-Casse in 1819. For a variety of reasons, even today some sections of the population do not have access to financial services from commercial banks.

good.bee is the financial inclusion joint-venture owned 60% by Erste Group and 40% by ERSTE Stiftung. It was founded in 2008 with the aim of developing innovative solutions for breaking down the barriers to financial inclusion for individuals and enterprises in Central and Eastern Europe. good.bee aims at supporting social integration and the economic development of individuals and communities by extending the reach of responsible and suitable financial services to social enterprises and disadvantaged people.

In 2012, good.bee's business focus was again on microfinance and social enterprise financing geared towards supporting enterprises that address social issues. In addition, local support networks assist social entrepreneurs to help them acquire the knowledge and skills they need to become successful in their ventures. At Erste Bank Oesterreich, a dedicated entity for social banking coordinates all activities related to social issues and enterprises. While there are numerous financing facilities and instruments for commercial enterprises, the social sector is still underbanked.

good.bee Credit was founded in 2009 in partnership with the *Economic Development Centre* (CDE foundation) in Romania. The company offers development-oriented financing products for self-employed persons and small businesses. Smallholdings and micro entrepreneurs are provided with investment loans and working capital loans to develop their businesses on a long-term perspective.

Erste Group's banking subsidiaries have started a number of good.bee initiatives. In 2012, Erste Bank Serbia and the Serbian National Employment Agency continued *supERSTEp*, a programme designed to support unemployed young people and start-ups with capital and training to set up or continue developing their own businesses. Additional cooperation partners joined the programme, among them *Youth Business Serbia*, in 2012. Erste Bank Croatia also supports self-employment by providing investment loans to people and businesses that have difficulties meeting standard requirements for obtaining loans. The good.beginners project initiated in 2011 was expanded to two regions of Croatia that were affected particularly severely by the economic and financial crises.

In 2012, Erste Bank Oesterreich's microfinance initiative was continued in cooperation with the Federal Ministry of Labour, Social Affairs and Consumer Protection. Since October 2012, a guarantee provided by the EIF (European Investment Fund) has also been available in this context. This guarantee may be used as collateral for other loans to small and micro enterprises in amounts of up to EUR 25,000. Erste Bank Oesterreich and the savings banks are the only Austrian banks that are able to offer their customers this guarantee. Working with Vienna's debtor counselling service, the Social Banking staff unit started an initiative called *betreutes Konto* (assisted account). More than 100 active accounts show that a gap may have been filled between customers of full legal capacity and those who have become incapable of handling their own financial affairs. In addition, the student funding scheme *For Best Students* has been made ready to market.

Banca Comercială Română granted several loans to social organisations in 2012 and acquired further experience in cooperating with the social sector. Česká spořitelna was the first bank in the Czech Republic to offer social enterprises loans for business expansion or development under its *Social Enterprise Finance* programme. This offer addresses those enterprises that primarily deal with social problems, offer competitive services or products on the Czech market and use most of their profits for the ongoing development of their business.

Employees

Retaining experienced and committed employees is fundamental to the long-term success of every company. Toward that end, Erste Group – as an organisation with leading market positions – strives to maintain its position as an employer of choice for talented people in Central and Eastern Europe. Erste Group's human resources strategy focuses on effective practices to create and maintain competitive advantages by building an even stronger organisation with highly skilled managers, teams and employees. Erste Group will continue to concentrate on areas such as diversity, organisational effectiveness, knowledge and training, talent management, change management, performance management, leadership development, and succession planning.

DIVERSITY AND INCLUSION

Diversity is a key topic for all international businesses, and for Erste Group diversity goes far beyond the traditional equal opportunities criteria of gender, minority or disability. Erste Group considers diversity a business strategy, embracing the broadest possible spectrum of knowledge, experience and perspective. A diverse workforce consists of people with a broad range of educational backgrounds, professional and other interests, work and life experience, as well as cultural perspectives. To give this strategy a face, the position of a *Group Diversity Manager* was established at the beginning of 2013.

Well-managed diversity is a competitive advantage. The diversity of its employees helps Erste Group to better understand the various needs of its customers and to offer adequate products and services. By optimising the use of social, cultural, gender, and age differences, Erste Group ensures its organisational effectiveness in integrating diversity in staffing, performance appraisals, training, and mentoring. Erste Group strives to establish conditions for greater diversity (gender, age and nationality) in its decision-making bodies to guarantee equal opportunities to employees at all professional levels and in all areas of activity throughout the Group.

Erste Group provides a working environment free of discrimination and harassment, and its corporate culture fosters equal opportunity and respect, as well as the quest for personal and professional growth. Diversity indicators such as a gender diversity index, equal opportunity aspects, percentage of women in managerial positions, age gap indicators, percentage of employees on parental leave by gender, average of training days per employee by gender or the cultural mix of employees are monitored and reported to the management board of Erste Group on an annual basis. Diversity criteria have been included in the key performance indicators of senior management since 2009. Other monitored areas include gender representation in talent programmes and salary discrepancies according to position or gender. An internal ombudsman monitors and handles instances of discrimination or harassment. Diversity topics are also included in regular employee surveys.

At Erste Group, mobility is considered to be fundamental for developing future managers and therefore constitutes a prerequisite for the appointment to group key positions. A *Mobility Polic*y outlines common rules. It includes guidelines for mobility packages; cultural and private backgrounds of expatriates are taken into account. A dedicated integration manager provides personal support for expatriates and their families.

As the population in the European Union is ageing, pension reforms will require the labour force to work longer. Companies that are able to leverage and manage age diversity will have a competitive edge in the future. Older and more senior employees possess a wealth of experience and knowledge, which is essential to on-going business success. Erste Group will expand flexible work arrangements to employees aged 55 years or above, and plans to implement phase-out retirement schemes as well as age management concepts. Benefits of age management include strengthened employee motivation and loyalty, retention of experienced staff, increased team cooperation and solidarity, a better skilled workforce and improved knowledge management. Professional age management generally results in lower turnover costs from severance payments and in a reduction of hiring costs as well as a positive image on the labour market.

Erste Bank Oesterreich initiated the *WoMen Business* project to achieve highly effective mixed-gender teams. This ambitious project is split into four sub-projects (*WoMen in Mind*, *WoMen Potential*, *WoMen Leadership*, and *WoMen Customer Relationship*) focusing on increasing awareness of different behavioural patterns, supporting women in specialist careers, achieving a balanced ratio of women to men at management level and on improving customer relationships with female customers.

At Česká spořitelna *Diversitas* is a comprehensive and systematic approach to diversity and inclusion. The programme focuses on all aspects of diversity management including recruitment, training and professional development of women, mentoring, networking, work-life balance and parental leave measures, age management, and employment opportunities for persons with a disability. The primary objective is to recruit, develop and retain talented employees of all genders, ages and backgrounds, and to provide them with the tools and support to develop professionally and to prepare them for top management positions. In addition, Česká spořitelna has partnered with the British Chamber of Commerce to launch a cross-business mentoring programme in the Czech Republic, providing women with access to international business leaders, creating new networks, and raising awareness of women's contributions to the economy. *Diversitas* also offers soft skills training for women such as assertiveness, presentation and negotiation skills. Together with the US Business School Prague it launched the *Horizons* network, which aims to create a professional network of women from Česká spořitelna and other companies. Another pillar of Česká spořitelna's programme is *Transition*, which was launched in 2011. The bank aims at recruiting more disabled employees not only to create a more diverse and dynamic work environment but also to better reach out to and accommodate the special requirements of customers. These efforts helped Česká spořitelna win the *Barrier-free Workplace Award* in 2012.

PERFORMANCE DIALOGUE/ EMPLOYEE DEVELOPMENT

The *Individual Development Plan* (IDP) is a key instrument in implementing Erste Group's philosophy of providing a working environment where work has a deeper meaning. A deeper meaning can be perceived by employees if they consider their professional tasks and responsibilities or their output important or meaningful, or by pursuing an activity that develops personal and professional skills or provides interesting work-life experiences. The deeper meaning concept also comprises topics such as education, training, job rotation, coaching and career development.

The IDP assists managers and employees in determining current competencies and those required in the future, as well as the needs and aspirations of the employees in connection with personal and company objectives. Based on each employee's individual position and responsibilities, the IDP identifies work-related competencies that need to be strengthened. Individual annual learning and development plans are derived from the IDP and systematically set in place. *Individual Development Plans* constitute a mutual agreement between employee and direct superior and outline knowledge, competency areas, potential career paths and employee mobility.

The IDP is an instrument for each employee, coach and assigned mentor to support the individual's career. Furthermore, the IDP is an important tool for employees participating in Erste Group's talent programmes. In 2012, the new IT-supported *Performance Development System* was successfully implemented in Erste Group. The aim is to document the employee appraisal dialogue electronically and to simplify and support the documentation of the performance dialogue in a more efficient way. The electronic system helps to steer the individual's development progress.

KNOWLEDGE AND TRAINING

Erste Group is dedicated not only to attracting the best employees but also to offering ongoing development opportunities through tailor-made learning activities. Having significant business operations in Central and Eastern Europe, Erste Group strives to be the best and the most competent bank in its region and systematically develops people's competencies towards achieving personal and business targets by providing ample opportunities for continuous education and training. The personal development programme focuses both on closing critical personal or organisational skills gaps and on developing the competencies required to drive strategy execution in the right direction. These programmes equip the employees with the required tools to develop their social and personal skills so that they make a difference on a personal and on a career level. Offering various training courses and encouraging employees to attend them is a key factor in ensuring that the workforce continuously meets and exceeds social and professional standards in a challenging economic environment.

Erste School (the learning hub of Erste Group) established two new business programmes in 2012 targeting professionals from different areas. Developed in co-operation with the respective business lines, the programmes provide expert knowledge and a uniform understanding of standards and processes within Erste Group at fundamental, advanced, and excellence levels. As regulations become more and more demanding on the banking business a *Compliance Certification Programme* was established together with an external international business school to provide compliance professionals with the required knowledge and skills to optimally perform their increasingly challenging role.

In addition to local education and training, each of Erste Group's private bankers has to complete a group-wide private banking certification process. The *Business Analysis Programme* supplements the offering of the *Project Management College* to aid the identification, design and implementation of business and systems solutions in a rapidly growing and evolving business. The *Project Management College* enhances IT-related project skills and change management competencies throughout Erste Group and awards employees with certified diplomas upon graduation. In addition, the colleges for risk management, trading, investment banking, private banking and corporate banking continued their training programmes.

In order to expand the knowledge base of employees and foster organisational development, the well-proven, open-access *Group Lecture Series* were continued in 2012 with 35 lectures presented by outstanding internal and external speakers in Austria and CEE countries. Topics from various areas of banking and beyond were included in order to stimulate strategic, innovative and "out-of-the-box" thinking.

The *Erste Group Graduate Programme* kicked off with a new class of trainees, and 23 young talents graduated from the programme that started in 2011. Each year a group of top university graduates is given the opportunity to participate in the programme. After one year of intensive on-the-job training as well as classroom education, the programme ends with a project presentation and a final evaluation. Hence, 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. The selection of talent is focused on creating a pool of internationally mobile candidates for key positions across Erste Group.

The *Succession Pooling* process is one of the key pillars of Erste Group's human resources strategy. Ensuring and developing the right strategic competence is essential for Erste Group's future. The first round of the new selection process for managerial talents was completed in 2012.

To be part of TCM initiatives, employees have to meet fundamental criteria of high performance and high potential for further growth, and have to be nominated by the management of the respective entity. On the performance side, both achievement of business goals and leadership competencies are taken into account. In times of potential assessment, the following dimensions are evaluated: international career aspiration and drive, learning and competency development, commitment and values.

Having passed the selection process, successful candidates are offered a development plan addressing the requirements for future key positions. Individual progress of succession pool members is regularly tracked by the respective board members. From 2012 onwards, the well-established *Group Leadership Development Programme* (GLDP) is also closely linked to the *Succession Pooling* process. The current GLDP class of 2012-13 comprises only members of the Group's *Succession Pools*. The second class of *CONNECT* (a development programme for senior professionals) attended six programme modules and successfully graduated from the programme in mid-November 2012. C*ONNECT's* goal is not only to develop high-quality skills but also to boost international knowledge exchange, networking and career support for selected non-managerial talents.

At the end of 2012, the number of active employees who either haven taken part or are taking part in one of the Group TCM development programmes or in a *Succession Pooling* process rose to 230.

HEALTH AND WORK-LIFE BALANCE

Investing in its employees' physical health and psychological well-being and focusing on health prevention is a key priority at Erste Group.

A prominent milestone in 2012 was the continuation of activities relating to the prevention of psychological disorders. This topic gained heavily in importance for individuals, organisations and society. Even during challenging times Erste Group successfully supported employees suffering from mental disorders. The OECD, working on a project referring to *mental health disability and work*, mentioned Erste Group as a role model for strategies concerning prevention, rehabilitation and organisational framework.

In addition, measures to prevent cardiovascular diseases were continued by taking a multi-modal approach (nutrition – exercise – smoking – stress – high blood pressure). The Austrian Vascular Society particularly praised Erste Group's efforts for having offered its employees a medical screening of the carotid artery on top of the well-established, voluntary medical check-up, as a contraction of the carotid artery is considered to be one of the main reasons for suffering a stroke. More than 2,000 employees participated in this carotid artery screening in Austria. Supporting measures, like diet sheets, featured the expertise of health care experts. The focus of these efforts was on enabling, which means helping employees improve their awareness of health care issues and, consequently, take the right decisions for a healthy lifestyle.

The importance of health policies at Erste Group is also reflected in the respective health services offered by Banca Comercială Română to employees and their family members. Banca Comercială Română is the only bank in Romania certified in accordance with OHSAS (Occupational Health and Safety Assessment Series) 18001.

As a supporting measure for a work-life balance, Erste Group strives to fully reintegrate employees returning from parental leave back into the work force by offering flexible work arrangements, the opportunity to work from home and a monthly child-care subsidy. Erste Group encourages communication during paternal leave to keep the employees informed on topics such as organisational changes or vacancies, for example. Information meetings offer parents the opportunity to meet managers and discuss current issues that concern the company or the team. Moreover, flexible work arrangements are offered not only to returning parents – who are empowered to organise their work to fit in better with the current phase of their lives. All employees of Erste Group are entitled to benefit from these opportunities and are encouraged to use them in order to achieve a satisfying work-life balance.

ORGANISATIONAL EFFECTIVENESS AND CHANGE MANAGEMENT

The interests of Erste Group's employees are represented by the respective employees' councils and local trade unions. In addition, the employees' councils are united on a group-wide level in the European Works Council. The respective trade unions together with the local banks periodically review the collective bargaining agreements (CBAs) in order to reach a consensus. The CBAs cover all employees of the respective institutions, meaning a total of more than 49,000 employees. Among other aspects, the CBAs include arrangements on employee benefits, personal development, work-life balance, flexible working hours and education.

In the event of significant operational changes, national legislation provides for minimum notice periods only in cases where the changes might trigger a significant number of dismissals. Trade unions and national labour authorities are consulted with the aim of deciding on the best solutions possible regarding significant dismissals. The complexity of operational changes determines the length of the notice periods. Erste Group's subsidiary Banca Comercială Română plans to optimise its operations and downsize the number of employees to 7,500 by the end of 2013.

Staff indicators *

	Turnover		Sick leave days per employee		Training days per employee	
	2012	2011	2012	2011	2012	2011
Austria	5.4%	4.4%	7.8	7.5	4.6	3.7
Czech Republic	5.2%	7.9%	5.7	6.2	3.2	2.5
Romania	2.0%	3.7%	7.1	11.1	4.0	3.6
Slovakia	6.3%	6.8%	6.4	5.9	7.8	8.9
Croatia	1.2%	1.6%	3.7	4.6	3.6	3.3
Hungary	4.9%	6.9%	6.8	5.5	2.5	3.8
Serbia	7.0%	7.0%	5.8	6.2	2.3	1.3

*) employee turnover = voluntary leave

	Share of female staff		Share of management positions		Women in management positions		Share of part-time staff		Share of female part-time staff	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Austria	53.4%	52.5%	10.5%	10.7%	29.8%	26.8%	31.0%	25.8%	78.7%	80.4%
Czech Republic	74.5%	75.0%	4.8%	5.4%	35.0%	21.5%	10.6%	9.4%	95.0%	95.0%
Romania	75.6%	75.9%	14.8%	13.1%	62.8%	62.8%	0.3%	0.1%	80.6%	100.0%
Slovakia	78.6%	79.0%	9.7%	9.0%	55.2%	55.7%	0.7%	0.6%	92.0%	75.0%
Croatia	74.0%	73.6%	5.6%	5.3%	50.8%	50.4%	0.9%	0.9%	95.0%	95.0%
Hungary	67.0%	68.6%	15.5%	11.3%	12.0%	14.0%	1.6%	1.8%	86.0%	86.0%
Serbia	71.9%	71.5%	15.4%	14.9%	53.5%	54.9%	4.5%	3.8%	64.4%	73.7%

Environment

ERSTE GROUP'S ENVIRONMENTAL STRATEGY

Respect for the environment, just like respect for individuals, is an integral part of Erste Group's corporate philosophy. Individuals and corporations contribute to climate change. Erste Group believes it is necessary to monitor the impact of its business activity and behaviour on the environment and recognise that commercial activities and environmental responsibility do not exclude each other. As contributing to and supporting climate protection is a global challenge, Erste Group implements and further adapts measures to tackle climate change, in particular by avoiding or reducing green house gas emissions. In order to respond appropriately, Erste Group has to strengthen the awareness of the Group's impact among its employees.

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

Medium-term priorities

In line with the environmental strategy, the following key priorities were determined:

_ **Climate protection and sustainable use of natural resources: Increased use of renewable energy sources, improvement of heating and electric energy efficiency at all locations and branches, vehicle fleet management in line with ecological principles, reduction of business trips supported by increased use of telephone and video conferences.**

_ **Ecological impact of procured products and services: Development and implementation of internal ecological procurement criteria, development and application of ecological construction methods when renovating or constructing buildings, Green IT, energy- and resource-efficient software solutions, implementation of internal rules for purchasing sustainable hardware, improving the energy efficiency of the data centre.**

_ **Waste management: Implementation and optimisation of internal waste management including waste separation.**

_ **Sustainable banking products: Definition of criteria for sustainable financing and investment, participation in international environmental agreements.**

ACHIEVEMENTS IN 2012

2012 was a big step forward in Erste Group's implementation of the environmental policy. Several years of continuous work provided a solid foundation for many projects. While the environmental management of Erste Group pursued core initiatives, for example the group wide switch to use only 100% recycled copy paper, a lot of initiatives were developed locally. Many environmental projects were continued or initiated in accordance with the defined priorities.

For the first time, Erste Group's environmental efforts were externally recognised. Erste Group Bank received the *Umweltpreis der Stadt Wien* (the environmental award of the City of Vienna) for the development of a mobile device measuring the electric energy consumption of file servers in the data centre (sIT Solutions GmbH); at approximately 18 GWh, it was responsible for a substantial part of the energy consumption of Erste Group in Austria. Erste Bank Serbia was the only financial institution that received the *ECOprofit* certificate of the City of Novi Sad. SPV Druck, Erste Group's printing company, was officially granted the government-sponsored *Oesterreichisches Umweltzeichen* (Austrian Ecolabel). The ecolabel is a reliable indicator that products and services meet strict ecological criteria.

Greenhouse gas emissions and energy efficiency

In 2012, Erste Group participated in the CDP (Carbon Disclosure Project). While the disclosure score of 56 was better than the Austrian average of 52, the performance band of D was below the Austrian average of C. Only data of the Austrian operations were included in this exercise; as of 2013, the scope will be expanded to cover the whole Group.

An excellent example of a forward-thinking approach to energy efficiency and environmental sustainability is Erste Campus, Erste Group's new headquarters close to Vienna's new central railway station. The modern building complex, scheduled to be ready for occupation in 2016, will provide space for up to 4,000 workplaces and consolidate approximately 20 office sites located throughout Vienna. The features of Erste Campus include district heating/cooling in combination with near-surface geothermal energy, special insulation and automatic shades to reduce heating and cooling energy consumption and lighting with LED-technology. The building complex is expected to be certified with a gold certificate by ÖGNI, the Austrian association for the advancement of sustainability in construction and property development. Even during the construction phase, only electric energy from renewable sources is being used to reduce the negative environmental impact.

The total electric energy consumption of Erste Group (excluding the savings banks) in Austria amounts to more than 40 GWh. As of April 2012, Erste Group switched to Naturkraft Energievertriebsgesellschaft, one of the few certified suppliers selling 100% renewable electric energy only. Due to the supplier change, Erste Group is now one of the biggest users of renewable energy in Austria. Erste Group reduced its carbon footprint in Austria by 57% from 17,332 tonnes in 2011 to 7,441 tonnes in 2012. To further reduce greenhouse gas (GHG) emissions, business travel is avoided as much as possible. In December 2012, a new state-of-the-art video-conference system was introduced at all local headquarters of Erste Group. Easy to use and with high-definition quality, this modern communications technology is a sound alternative to business travels and face-to-face meetings.

To reduce direct adverse effects of traffic on the environment, emission levels of cars are a topic throughout Erste Group. The emissions of Česká spořitelna's fleet are on average 8% below the defined limits (e.g. maximum of 120 g/km for the standard category). Erste Bank Hungary's switch to diesel engine cars resulted in savings of approximately 150,000 litres of petrol annually. The reorganization of the car pool of Banca Comercială Română led to a 15% decrease in fuel consumption.

A special focus in several countries was on replacing existing lighting systems with more efficient ones. In some places at the head office in Vienna (meeting rooms, event centre, car park), the existing lighting system was replaced by LED technology to test the savings potential and the employee acceptance. The calculated pay-back period is close to one year. Česká spořitelna started a pilot project to test a new LED light source in branch halls in the centre of Prague and České Budějovice and in sanitary facilities at its technical centre. Expected benefits are reduced maintenance of lamps, lower energy consumption and better lighting quality. In Hungary and Romania, measures included the installation of movement detectors to control lighting, switching to LED technology for outdoor advertising or reduction of the light intensity in lobbies. Slovenská sporiteľňa achieved a reduction of up to 30% of electrical energy consumption of advertising light panels through decreasing their light intensity by installing special chips inside the panels.

Česká spořitelna concluded the implementation of remote monitoring of building technology for 50 properties. It is planned to gradually connect all office sites. Online access to building technology, electricity and heating energy consumption data allows the use of heating, cooling and ventilation to be controlled and optimised. The effectiveness of heating sources is measured; it is planned to replace heating systems older than 15 years to save energy and costs. The planned optimisation of cooling in the technical centre in Prague will result in further energy savings. Environmental criteria (only products with an energy efficiency label of A+ or better) have been included in the specification of purchased kitchen equipment such as coffee machines.

Slovenská sporiteľňa started to regularly measure the temperature at all premises to ensure that heating and cooling devices are set up correctly to avoid overheating or overcooling of branch space. A project to optimise the energy consumption in 15 high-consumption buildings was continued. To identify energy-saving opportunities, the energy consumption of each location was analysed with a special focus on equipment and technologies with high energy consumption. The action plan involved setting of temperature and time programs of all HVAC equipment (heating, ventilation and air conditioning). Based on this success, the project will be extended to 20 other buildings. Electrical circuits and all PCs are switched off automatically after business hours; the same scheme was introduced in Austria two years ago and resulted in electric energy savings of approximately 5%. At newly refurbished branches, the office ventilation is determined by air quality (CO_2 concentration).

The measures of Erste Bank Hungary to improve the efficiency of branch and head office buildings included changing and optimising server cooling systems, pre-cooling by natural air ventilation and applying more effective temperature control. Whenever investments are necessary, energy-efficient solutions are preferred. At the head office in Budapest, a sensor system for windows (switches off fan coils when windows are open) was installed. The control system of shades and blinds was optimised to reduce daytime use of artificial lights.

Erste Bank Croatia cut its heating costs by installing electronically controlled thermostatic valves on each radiator to turn them off when windows are opened. Each office already has digitally accessible temperature measurement to keep the room temperature at the desired level. Presently at the Bjelovar location, heating costs are distributed by fixed calculation based on the floor space used. As of 2013, it is planned to implement individual heating meters providing exact measurement of the heating consumed by every user. The aim is to create higher awareness and a greater willingness to save energy. Another measure to reduce the costs of electric energy was the installation of a peak-load control system in Zagreb and Rijeka to control and manage peak power by balancing the air-conditioning and ventilation systems.

Erste Bank Serbia optimised the fan coil system at the headquarters in Novi Sad and Belgrade. In addition, an energy management system was set up in all branches. The measured real energy consumption will be analysed with the goal of reducing energy consumption, which will result in lower costs and an improved CO_2 footprint.

Measures to reduce office paper consumption

Erste Group consumes more than 2,000 tons of copy paper per year; each local bank used to have its own paper quality criteria. Erste Group's management board decided to switch as of 2013 to 100% recycled copy paper group wide. This initiative will not only reduce the consumption of natural resources (wood, water, energy) but also result in annual cost savings of more than EUR 100,000 even without a reduction in volume. Although increased awareness among employees and customers has already led to a more conscious and responsible use of paper, the existing initiatives to reduce the total consumption of copy paper will, of course, be continued.

Erste Bank Oesterreich introduced signing pads at bank counters, whereby customers no longer sign on a paper slip but on a touch screen. The increased use of electronic banking automatically results in a decrease in paper consumption (e.g. fewer printed bank statements). In all countries, most of the small office printers are being replaced by multifunctional devices with double-sided printing as standard setting.

Erste Bank Hungary started *Fight paper*, a document management project. The objective is to develop and promote paperless processes such as electronic filing or cash withdrawal at ATMs without printed receipts. At Banca Comercială Română – the local bank with the highest copy paper consumption per employee –, a special programme will start in 2013 to change processes with the aim of significantly reducing copy paper consumption.

Waste management initiatives

Waste separation was introduced in all premises of Slovenská sporiteľňa. Erste Bank Hungary introduced waste separation management in its headquarters. Waste paper collection for recycling was refined by installing shredding machines for confidential or sensitive documents on every floor. Non-sensitive waste paper is collected in separate boxes. Specialised recycling companies handle electronic waste disposal. Computers and furniture no longer used but still in good condition are donated by the bank to educational institutions and foundations.

Erste Bank Croatia installed special devices purifying tap water (applying the reverse osmosis method) to replace water dispensers or PET bottles. This reduced not only the plastic waste of PET bottles but also the costs for drinking water. The bank continued a PET plastic packaging collection initiative to support a local non-government organisation. In addition, all waste paper is separately collected and recycled.

Erste Bank Serbia expanded its waste separation programme and installed designated collection bins for waste paper, PET and glass bottles on each floor. If the initiative proves successful, the scheme will be extended to all branches in 2013. Toners from printers and electronic waste were collected to be recycled by specialised companies.

Ecological impact of procured products and services

Environmental criteria are now included in all sourcing activities of Erste Group's centralised procurement. A screening process of the top 150 suppliers is well under way. Specially developed supply audit questionnaires include questions about the environmental measures of Erste Group's suppliers.

Erste Bank Oesterreich promoted special products to finance energy-efficient investments. s Bausparkasse (Erste Group's Austrian building society) offered a bonus payment of up to EUR 500 for housing loans financing approved energy-efficiency investments. Customers of s Autoleasing (car leasing company) opting for an e-car or hybrid car were also rewarded with a bonus. Both campaigns were promoted with the logo of the *WWF Climate Group*. In December 2012, Erste Bank Oesterreich tested the market with a dedicated renewable energy bond (2% Erste Group Erneuerbare Energieanleihe 2012–2019). All funds raised are exclusively used to finance renewable energy projects such as windmills or photovoltaic generators.

Erste Bank Hungary promoted environment-friendly technologies and provided favourable financing conditions for retail customers investing in properties with an appropriate energy performance certificate. Erste Bank Ukraine signed an agreement with the International Finance Corporation to support energy efficiency projects in the country. Erste Bank Serbia approved a new social and environmental policy for financing that will be implemented in 2013. The aim is to be recognised as the only bank in Serbia focused on environmental protection. All financing will have to meet not only the common risk assessment criteria but also environmental criteria.

Awareness among employees and other stakeholders

In February 2012, Erste Group in Austria participated in an energy-savings campaign organised by the *Austrian WWF Climate Group* partners (www.climategroup.at). This group of leading Austrian companies, also including Allianz insurance, IKEA and the retailers dm and SPAR, support the *WWF Austria*, is committed to climate protection.

The campaign *Energieferien* aimed at creating public awareness for the energy-savings potential by replacing power guzzlers with energy-efficient household appliances, switching to LED lamps and using multiple socket outlets that can be completely switched off. It was supported by TV advertisements, flyers and many individual events. As part of this campaign, Erste Bank Oesterreich financed a smartphone app, *WWF Ratgeber*, which helps people to find the most energy-efficient household appliances and provides useful energy-savings tips.

Erste Bank Hungary encouraged its employees to use bicycles as a healthy and environmentally friendly way of commuting. Two rooms for bicycle storage are dedicated for employees, adjacent to the amenities of a locker room equipped with showers and individual lockers.

Environmental Data

Based on experience gained in Austria, in October 2012 a group wide environmental data collection project was started to collect reliable and comparable environmental data from all Erste Group facilities based on international best practice standards. Some new principles for data collection were introduced. Instead of CO_2 emissions, CO_2 equivalents (CO_2eq) are now calculated. This new calculation of greenhouse gas emissions also takes into account all emissions generated downstream in the production of district heating, electricity and fuel. If no information is made available by the respective local supplier, the database of *ecoinvent* (http://www.ecoinvent.ch/) – *Swiss centre for life cycle inventories* , a provider of consistent and transparent life cycle inventory data is used.

Due to the change in methodology, data reported in previous years cannot be compared with the figures given below. In the following tables, we provide detailed environmental data for 2011 and 2012, with the exception of Erste Bank Hungary and Banca Comercială Română due to major changes in their operations. The missing 2012 data will be available only after the cut-off date for the annual report; these data will be published on Erste Group's website later this year.

Environmental indicators 2012 *

Tonnes CO_2eq	Total	Austria	Croatia	Czech Rep	Hungary	Romania	Serbia	Slovakia
Heating/ warm water	na	3,960	1,106	16,522	na	na	740	5,757
Electricity	na	443	5,977	42,105	na	na	3,207	12,568
Diesel for electricity	na	-	6	21	na	na	4	10
Mobility	na	3,023	712	4,949	na	na	412	1,484
Cooling agents	na	-	215	262	na	na	42	194
Total	na	7,441	8,017	63,859	na	na	4,405	20,013

*) CO_2eq … CO_2 equivalents

Relative values per FTE or m²	Heating kWh/m²	Electricity kWh/m²	Copy paper kg/FTE	Waste kg/FTE	CO_2eq t/FTE
Austria	85.8	198	33	259	0.86
Croatia	60.0	151	44	27	2.84
Czech Republic	121.9	114	22	135	4.13
Hungary	na	na	na	na	na
Romania	na	na	na	na	na
Serbia	131.4	138	68	28	3.66
Slovakia	112.6	130	35	138	3.75

*) FTE (full-time equivalent) … defines an active employee times his/her employment factor
CO_2eq … CO_2 equivalents

Environmental indicators 2011 *

Tonnes CO_2eq	Total	Austria	Croatia	Czech Rep	Hungary	Romania	Serbia	Slovakia
Heating/ warm water	50,715	4,349	1,005	18,060	2,997	17,322	963	6,019
Electricity	117,554	10,168	6,076	46,216	10,481	29,150	3,069	12,393
Diesel for electricity	45	-	7	35	-	-	3	-
Mobility	14,782	2,816	797	4,062	2,024	3,318	338	1,428
Cooling agents	2,080	-	425	585	-	980	46	44
Total	185,177	17,332	8,310	68,958	15,502	50,770	4,419	19,885

*) CO_2eq … CO_2 equivalents

Relative values per FTE or m²	Heating kWh/m²	Electricity kWh/m²	Copy paper kg/FTE	Waste kg/FTE	CO_2eq t/FTE
Austria	102.3	199	38	218	1.88
Croatia	55.1	155	48	52	3.11
Czech Republic	106.3	94	22	103	4.66
Hungary	126.5	163	82	510	3.30
Romania	149.7	84	99	na	4.60
Serbia	176.5	134	66	28	4.66
Slovakia	124.6	136	34	144	4.33

*) FTE (full-time equivalent) … defines an active employee times his/her employment factor
CO_2eq … CO_2 equivalents

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 2012

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 recognised 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 to 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, C-Rules, which permit a deviation but need to be explained, and R-Rules, which permit a deviation without requiring an explanation.

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

COMMITMENT TO COMPLY WITH THE RULES OF THE AUSTRIAN CCG

(C-Rule 16 Austrian CCG)

In 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 2012, Erste Group Bank AG complied with all L-Rules (legal requirements) and R-Rules (recommendations). The deviation from two "Comply or Explain" rules (C-Rules) is presented and explained below.

Qualifications, composition and independence of the supervisory board

52a (C) The number of members on the supervisory board (excluding employees' representatives) shall be ten at most. Each new member of the supervisory board is responsible for being duly informed about the organisation and business activities of the company as well as the tasks and responsibilities of the supervisory board members

Due to the size of the company, the supervisory board of Erste Group Bank AG (excluding employees' representatives) consisted until 15 May 2012 of twelve members. At the Annual General Meeting 2012, a resolution was passed to reduce the number of members of the supervisory board to ten.

57 (C) Supervisory board members who are on the management board of a listed company must not exercise more than a total of four 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 non-Group limited companies.

Juan María Nin Génova, as a member of the management board of the listed company CaixaBank S.A., held five supervisory board mandates in non-Group limited companies in the financial year 2012. The stock exchange listing of CaixaBank S.A., in which he is acting as a member of the management board, only took place 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. The publisher of these guidelines is Global Reporting Initiative (https://www.globalreporting.org), a non-governmental organisation.

Governance structure

Erste Group Bank AG has 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

DIE ERSTE österreichische Spar-Casse Privatstiftung (Privatstiftung), a private foundation, is accorded the right by the articles of association (item 15.1) to delegate up to one third of the members of the supervisory board to be elected by the Annual General Meeting. Privatstiftung has not yet exercised this right.

The employees' council, according to the legal stipulations and the articles of association, is authorized to delegate one member from among its ranks for every two members appointed by the Annual General Meeting (statutory one-third parity rule). If the number of shareholder representatives is an odd number, then one more member is appointed as an employee representative.

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

The members of the supervisory board are annually obligated to 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, 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

Manfred Wimmer

Born 1956
Member of the management board since 1 September 2008
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: 31 January 2012

Bernhard Spalt

Born 1968
Member of the management board since 1 November 2006
End of the current period of office: 31 January 2012

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 the previous 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

Gernot Mittendorfer
None

Manfred Wimmer
Österreichische Galerie Belvedere

Martin Škopek
None

Bernhard Spalt
None

INFORMATION ON THE SUPERVISORY BOARD

(section 243b par. 2 Austrian Commercial Code)

Position, name, year of birth, occupation, 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	Friedrich Rödler*	1950	Auditor and tax advisor	4/05/2004	AGM 2014
1st Vice Chairman	Georg Winckler	1943	Former rector of the University of Vienna and Professor emeritus of Economics	27/04/1993	AGM 2015
2nd Vice Chairwoman	Theresa Jordis	1949	Lawyer	26/05/1998	AGM 2013
Member	Bettina Breiteneder	1970	Entrepreneur	4/05/2004	AGM 2014
Member	Jan Homan	1947	General Manager, ret.	4/05/2004	AGM 2014
Member	Brian D. O'Neill	1953	Vice Chairman Lazard International	31/05/2007	AGM 2017
Member	Juan María Nin Génova	1953	Vice Chairman and CEO CaixaBank	12/05/2009	AGM 2014
Member	Wilhelm Rasinger	1948	Consultant	11/05/2005	AGM 2015
Member	John James Stack	1946	President and CEO, ret.	31/05/2007	AGM 2017
Member	Werner Tessmar-Pfohl	1942	Entrepreneur, ret.	6/05/2008	AGM 2013
Chairman	Heinz Kessler*	1938	General Manager, ret.	26/05/1998	AGM 2012
Member	Elisabeth Gürtler**	1950	Entrepreneur	26/05/1998	AGM 2012
Delegated by the employees' council					
Member	Andreas Lachs	1964		9/08/2008	until further notice
Member	Friedrich Lackner	1952		24/04/2007	until further notice
Member	Bertram Mach	1951		9/08/2008	until further notice
Member	Barbara Smrcka	1969		9/08/2008	until further notice
Member	Karin Zeisel	1961		9/08/2008	until further notice
Member	Markus Haag***	1980		21/11/2011	until further notice

* Heinz Kessler resigned from the supervisory board at the end of the annual Annual General Meeting on 15 May 2012. Friedrich Rödler was elected chairman oft he supervisory board.
** Resigned from the supervisory board at the end of the annual Annual General Meeting on 15 May 2012
*** Withdrawal of appointment on 15 May 2012

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

Name	Construction committee	Executive committee	Nomination committee	Audit committee	Risk management committee	Remuneration committee
Friedrich Rödler	Vice Chairman	Chairman	Chairman	Member*	Chairman	Chairman**
Georg Winckler	Member	Vice Chairman	Vice Chairman	Chairman	Vice Chairman	Vice Chairman
Theresa Jordis	-	Member	Member	Vice Chairman	Member	Member
Bettina Breiteneder	Chairwoman	-	-	Substitute	Member	-
Jan Homan	-	-	-	Member	Member	Substitute
Brian D. O'Neill	-	-	-	-	-	Member
Juan María Nin Génova	-	Member	-	-	-	Member
Wilhelm Rasinger	-	Substitute	-	Member	Member	Substitute
John James Stack	-	-	-	-	-	Member
Werner Tessmar-Pfohl	Member	-	-	-	Substitute	-
Delegated by the employees' council						
Andreas Lachs	-	Substitute	-	Member	Member	-
Friedrich Lackner	Member	Member	Member	Member	-	Member
Bertram Mach	-	Member	Member	-	Member	Member
Barbara Smrcka	Member	-	-	Substitute	-	Substitute
Karin Zeisel	-	-	Substitute	-	Member	Member

* Financial expert
** Remuneration expert

Mandates in supervisory boards or similar functions in other foreign and domestic companies for each supervisory board member with reference date 31 December 2012 (listed companies are marked with *) (C-Rule 58 Austrian CCG)

Friedrich Rödler
Erste Bank der oesterreichischen Sparkassen AG
Erste Bank Hungary Zrt.

Georg Winckler
Austria Versicherungsverein auf Gegenseitigkeit Privatstiftung (Chair)
DIE ERSTE österreichische Spar-Casse Privatstiftung (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)
Österreichische Industrieholding AG

Bettina Breiteneder
ZS Einkaufszentren Errichtungs- und Vermietungs-Aktiengesellschaft
Gain Capital SA, SICAV-FIS Real Estate Car Parks I (BoD)

Jan Homan
Allianz Elementar Versicherungs-Aktiengesellschaft
BillerudKorsnäss AB
Constantia Flexibles GmbH (Chair)
Constantia Flexibles Group GmbH (Chair)
Drukkerij Verstraete
European Aluminium Foil Association (Chair)
Flexible Packaging Europe (Chair)
Slovenská sporiteľňa, a.s.

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

Juan María Nin Génova
APD – Association for the Advancement of Management (Member of the Academic Board)
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)
Aspen Institute Spain Foundation (Trustee)
CEDE Foundation (BoD)
Deusto University (BoD)
Deusto Business School (BoD)
Esade Business School Foundation (Trustee)

Federico Garcia Lorca Foundation (Trustee)
FUOC-Foundation for the Open University of Catalonia (Member of the Global Strategy Council)
Spain-China Council Foundation (BoD)
Spain-India Council Foundation (BoD)
Spain-United States Council Foundation (BoD)

Wilhelm Rasinger
Friedrichshof Wohnungsgenossenschaft reg. Gen. mbH (Chair)
S IMMO AG*
Wienerberger AG*

John James Stack
Ally Bank (BoD)
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)

Heinz Kessler (resigned on 15 May 2012)
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)
Reform-Werke Bauer & Co. Holding Aktiengesellschaft (Chair)

Elisabeth Gürtler (resigned on 15 May 2012)
ATP Planungs- und Beteiligungs-Aktiengesellschaft (Vice Chair)
Chokoladefabriken Lindt & Sprüngli AG (BoD)
Oesterreichische Nationalbank
Österreich Werbung
Wiener Kongresszentrum Hofburg Betriebs GmbH

Delegated by the employees' council

Friedrich Lackner
DIE ERSTE österreichische Spar-Casse Privatstiftung

Andreas Lachs
VBV-Pensionskasse AG

Bertram Mach
None

Barbara Smrcka
None

Karin Zeisel
None

Markus Haag (resigned on 15 May 2012)
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 or had have in the past year any business relations with the company or a subsidiary of the company to an extent of significance for the supervisory board member. 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 criteria, all members of the supervisory board have declared their independence.

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

Until 15 May 2012, three members of the supervisory board held a function on the body of a company that owns over 10% of the shares of Erste Group Bank AG (Kessler, Winckler, Lackner). Since 15 May 2012, there have been only two such members on the supervisory board following the resignation of Heinz Kessler. Additionally, in 2012, 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 Austrian 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 totalling EUR 236,418.57 in 2012. Friedrich Rödler is Senior Partner at PricewaterhouseCoopers Austria; companies of this group billed companies of Erste Group for consulting work totalling EUR 501,000.00 in 2012.

INFORMATION ON THE SELF-EVALUATION OF THE SUPERVISORY BOARD

(C-Rule 36 Austrian CCG)

For self-evaluation, the supervisory board created a working group in March 2012 to look at the activities and efficiency of the supervisory board. The supervisory board considered the proposals of the working group and approved them on 27 June 2012.

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 aligns it with the supervisory board. It ensures effective risk management and risk control. When reaching its decisions, the management board takes into account all relevant legal provisions, the rules of the articles of association and its internal rules of procedure.

Supervisory board

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

DISTRIBUTION OF RESPONSIBILITIES ON THE MANAGEMENT BOARD

(C-Rule 16 Austrian CCG)

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

As of 27 November 2012

Andreas Treichl (Chairman)

Group Strategy & Participation Management, Group Secretariat, Group Communications, Group Investor Relations, Group Human Resources, Group Audit, Group Brands, Employees' Council

Franz Hochstrasser (Vice Chairman)

Group Large Corporates Banking, Erste Group Immorent Client, Industries and Infrastructure, Group Capital Markets, Group Research, Group Investment Banking, Steering & Operating Office Markets, Steering & Operating Office Large Corporates/ Erste Group Immorent

Herbert Juranek

Group Organisation/IT, Group Banking Operations, Group Services

Gernot Mittendorfer

Group Strategic Risk Management, Group Corporate Risk Management, Group Retail Risk Management, Group Corporate Workout, Group Compliance Legal & Security, Erste Group Immorent Real Estate Risk Management, Group Risk Governance and Projects, Quantitative Risk Methodologies

Manfred Wimmer

Group Accounting, Group Performance Management, Group Asset Liability 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 six committees: the risk management committee, the executive committee, the audit committee, the nomination committee, the remuneration committee and the 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 Austrian Banking Act if such an investment in credit institutions exceeds 10% of the own funds of Erste Group Bank AG 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. The supervisory board delegated to the committee the right of approval for the establishment of branches and the right of approval for 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 monitoring the group's portfolio of participations except in cases where this is the responsibility of the audit committee. The tasks of the risk management committee include the acknowledgement of reports on legal disputes and on the risk impact and costs of major IT projects as well as of reports on important audits of subsidiaries conducted by regulatory authorities.

Executive committee

The executive committee meets on an ad hoc basis at the supervisory board's request for the purpose of preparing specific topics for meetings or for resolutions to be taken by circular. The committee may also be assigned the power to take final decisions. In case of imminent danger and to prevent severe damage, the executive committee may be convened by its chairperson in order to take action in the interest of the company even without a specific mandate from the supervisory board.

Audit committee

The audit committee is responsible for supervising the accounting process; supervising the effectiveness of the internal controlling system, the internal audit system and the risk management system; supervising 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 management 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 management report; preparing 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 audit 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 audit topics and important findings on the basis of audits made and the activity report pursuant to section 20 in connection with section 21 par. 2 of the Austrian Securities Supervisory Act (Wertpapieraufsichtsgesetz); acknowledging immediate information on important findings of the auditor, the internal audit or an audit by a regulatory authority; acknowledging immediate information on cases of damage that could exceed 5% of the consolidated equity or 10% of the budgeted net result; acknowledging reports of the management board on current developments and compliance regarding corporate governance and anti-money laundering; acknowledging the compliance activity report pursuant to section 18 in connection with section 21 of the Austrian Securities Supervisory Act (Wertpapieraufsichtsgesetz).

Nomination committee

Meetings of the nomination committee are held as needed or when a member of the committee or the management board requests a meeting. The nomination committee submits proposals to the supervisory board for filling management board mandates that become vacant and deals with issues of succession planning. The committee discusses and decides on the content of employment contracts for members of the management board. It deals with and decides on relationships between the company and the members of the management board except for resolutions to appoint members to the management board or to revoke such appointments and on the granting of stock options. Furthermore, the nomination committee submits proposals to the supervisory board for filling supervisory board mandates that become vacant. Particular attention is given to the members' personal and professional qualifications, a well-balanced composition of the supervisory board in terms of expertise and to diversity.

Remuneration committee

The remuneration committee approves the general principles of the remuneration policy, reviews them regularly and is also responsible for their implementation. The committee monitors remuneration policy, remuneration practices and remuneration-linked incentive programmes. The committee monitors the payment of variable remuneration to members of the management board and to the second management level as well as to management board members of major subsidiaries. Furthermore, the remuneration of top management staff in risk management and in compliance functions is reviewed directly by the remuneration committee. Once a year, the committee is presented with a comprehensive report on the remuneration system including key performance indicators as well as a report on the situation regarding personnel and management in the Group.

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. The supervisory board may assign further tasks to the committee, if necessary.

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 2012.

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 different types of risk and the bank's overall risk, on the individual status of the banking subsidiaries in Central and Eastern Europe as well as on the audit subjects and the material findings of 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 the European level and in Austria and its implications for Erste Group. Proposals to the management board that require the approval of the supervisory board by law, the articles of association and the rules of procedure are presented regularly to the supervisory board.

At the extraordinary meeting on 30 January 2012, responsibilities were reassigned and new rules of representation defined following the reduction of the management board members from seven to five in accordance with a resolution passed in December 2011.

On 14 March 2012, the financial statements and the management report 2011, the consolidated financial statements and management report 2011 as well as the corporate governance report 2011 were reviewed; the bank auditors' reports were discussed, the financial statements 2011 were adopted in accordance with the recommendation of the audit committee, and the proposal for the distribution of the profit 2011 was approved. The annual compliance report was presented, and the report of the supervisory board and the proposals for resolutions to be taken at the Annual General Meeting were approved.

At the constituent meeting on 15 May 2012 after the Annual General Meeting, the chairman of the supervisory board and the vice chairpersons were elected, the committees of the supervisory board were newly appointed, and the distribution key for the remuneration of supervisory board members resolved at the Annual General Meeting was adopted.

On 27 June 2012, the findings of a working group set up by the supervisory board to deal with the activities and the efficiency of the supervisory board were discussed. The rules of procedure of the supervisory board and its committees were amended in line with these findings and appointments to supervisory board committees adapted accordingly. The report on major participations for 2011 and the first quarter of 2012 were discussed as well.

On 19 September 2012, the situation at three major subsidiaries was discussed in detail and information on directors' dealings was presented.

On 12 December 2012, the budget and the investment plan 2013 of Erste Group Bank AG were approved and a report on the consolidated budget for the year 2013 was presented. Information was provided on anti-corruption measures in the Group and cost reduction plans were discussed. At this meeting, the supervisory board passed the resolution in principle to sell Erste Bank Ukraine and authorised the executive committee to take the final decision within the set price range.

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 2012, 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 authorisation of the management board. The committee was regularly informed on different types of risk, risk-bearing capacity and large exposures. Special reports were delivered on the situation of specific sectors and industries, on audits conducted by supervisory authorities and various legal disputes as well as on risk development in individual countries and subsidiaries, on the activities of Group Compliance and on the new supervisory regime at the European level and in Austria.

The strategy committee met for the last time in 2012. At this meeting, it focused in particular on the future format of supervisory board and committee meetings.

The executive committee, which was newly set up in 2012, met once in 2012 within the scope of the powers assigned to it by the supervisory board to reach a decision on the sale of Erste Bank Ukraine. Information on the sale was published as an ad hoc release on 20 December 2012.

The audit committee held four meetings in 2012. Among other things, the auditors reported on the status of the audit of the financial statements and consolidated financial statements. After a bidding process, the decision was taken, subject to approval by the supervisory board, to propose Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. to the Annual General Meeting as an additional auditor of the (consolidated) financial statements for the financial year 2013. The supervisory board approved this proposal at its next meeting. The audit committee conducted its final discussions. The financial statements and the management report, the consolidated financial statements and the consolidated management report as well as the corporate governance report were reviewed and recommended to the supervisory board for adoption, and the proposal of the management board for distribution of the net profit for the financial year 2011 was acknowledged. The head of the internal audit department reported on the audit subjects and the key findings of the audit for the year 2011 and explained the audit plan for 2012. The internal audit department presented its reports pursuant to section 42 par. 3 of the Austrian Banking Act (Bankwesengesetz). The audit committee also discussed its work plan and defined which topics were to be included on the agendas of which of its meetings.

The nomination and remuneration committee was divided into two committees in 2012: into the nomination committee and the remuneration committee. There was no reason that required a meeting of the nomination committee in 2012. The remuneration committee met twice after the separation of the two committees and discussed various remuneration issues relating to Erste Group and its subsidiaries including the structure of key performance indicators and the bonus policy, and was informed on continuing professional development and succession programmes.

The construction committee met four times in 2012. The main topics discussed were project plan, project organisation, budget, costs and risks as well as procedure for tenders, deadlines and connected developments for Erste Campus, the planned new headquarters of Erste Group at the future central station in Vienna.

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

(section 243b Austrian Commercial Code)

Ever since the bank's foundation, diversity has played a major role in its organisation and has been firmly embedded in Erste Group's corporate philosophy. Erste Group promotes equal opportunity and diversity in particular with regard to gender, age and ethnicity.

The representation of women and men in management positions continues to be a key topic. Erste Group has been working consistently and steadily on improving the gender balance in management positions. In 2012, 54% of new appointments to management positions were women. Local initiatives underline the importance of this issue, among them projects initiated by Erste Bank Oesterreich: WoMen Potential (supporting women pursuing specialist careers) and WoMen in Leadership (aimed at raising the proportion of women in management from currently 30% to 40% over the next five years).

Erste Group is committed to continuing to implement measures designed to enhance equality of opportunity. Extensive debates at management board level on the impact of gender diversity on Group management led to the launch of a group-wide Diversity and Inclusion Initiative. It is based in part on experiences and practices at Česká spořitelna, which has received multiple Equal Opportunity and Diversity Awards. To underline the importance of this issue and his personal commitment, Andreas Treichl is supporting the initiative as project sponsor.

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)

Remuneration in the financial year 2012

in EUR thousand	Fixed salaries	Other compensation	Performance-linked compensation for previous years	Total
Andreas Treichl	1,236.7	470.9	0	1,707.6
Franz Hochstrasser	690.6	164.4	0	855.0
Herbert Juranek	631.2	60.9	0	692.1
Manfred Wimmer	631.2	163.4	0	794.6
Gernot Mittendorfer	599.2	55.0	0	654.2
	3,788.9	**914.6**	**0**	**4,703.5**

The item “other compensation” comprises pension fund contributions (at severance payments – new) and various other forms of compensation.

Performance-linked compensation
Since the financial year 2010, the variable part of the compensation of the management board members is distributed over five years in accordance with legal requirements and is paid out only under specific conditions. For the financial year 2011, no performance-linked compensation was paid to the management board. No performance-linked compensation for previous years was paid out in 2012. Neither were any commitments made to pay share-equivalents to management board members.

Long-term incentive programmes
Currently, two long-term incentive programmes (LTI) are run, which are based on changes in the share price of Erste Group Bank AG versus a group of peers and the Dow Jones Euro Stoxx Banks. The final payout under the LTI 2007 programme was made in 2012. The LTI 2010 was started on 1 January 2010 and also runs for four years. In accordance with its terms, the following payments were made in 2012:

in EUR thousand	LTI 2007	LTI 2010	Total
Andreas Treichl	240.9	0	240.9
Franz Hochstrasser	60.2	84.0	144.2
Herbert Juranek	60.2	84.0	144.2
Manfred Wimmer	0	84.0	84.0
Gernot Mittendorfer	0	0	0
	361.3	**252.0**	**613.3**

Bernhard Spalt and Martin Škopek left the management board effective 31 January 2012. Bernhard Spalt received EUR 52,600 in fixed and EUR 5,600 in other compensation. Martin Škopek received EUR 75,000 in fixed and EUR 35,100 in other compensation. Martin Škopek received EUR 42,000 and Bernhard Spalt EUR 144,200 under the LTI programmes.

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 Austrian Salaried Employees Act (Angestelltengesetz) apply for two members of the management board. All other members of the management board are not entitled to receive any termination benefits.

The compensation granted to the management board members complies with the banking rules on remuneration.

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 2012	Supervisory board compensation for 2011	Total
Friedrich Rödler	36.0	50.0	86.0
Georg Winckler	31.0	75.0	106.0
Theresa Jordis	29.0	75.0	104.0
Bettina Breiteneder	19.0	50.0	69.0
Jan Homan	10.0	50.0	60.0
Wilhelm Rasinger	27.0	50.0	77.0
Werner Tessmar-Pfohl	12.0	50.0	62.0
Brian D. O´Neill	7.0	50.0	57.0
John James Stack	6.0	50.0	56.0
Juan María Nin Génova	5.0	50.0	55.0
Heinz Kessler	14.0	100.0	114.0
Elisabeth Gürtler	2.0	50.0	52.0
Friedrich Lackner	0	0	0
Andreas Lachs	0	0	0
Bertram Mach	0	0	0
Barbara Smrcka	0	0	0
Karin Zeisel	0	0	0
Markus Haag	0	0	0
	198.0	**700.0**	**898.0**

The Annual General Meeting 2012 granted the members of the supervisory board compensation totalling EUR 700,000 for the financial year 2011, 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.

Directors and officers insurance

Erste Group Bank AG has directors and officers liability insurance. The insurance policy covers former, current and future members of the management board or managing directors, the supervisory board, the administrative board, the advisory board and senior employees, authorised signatories and management staff of Erste Group Bank AG and the subsidiaries in which Erste Group Bank AG holds more than 50% of the shares or voting rights either directly or indirectly through one or more subsidiaries. The costs are borne by the company.

REPORT ON THE EXTERNAL EVALUATION

(R-Rule 62 Austrian CCG)

Erste Group Bank AG commissioned an external evaluation of compliance with the Code of Corporate Governance in the years 2006, 2009 and 2012 for the respective preceding business years. All evaluations reached the conclusion that Erste Group Bank AG had met all requirements of the Code. Summary reports on these evaluations are available at the website of Erste Group Bank AG.

SHAREHOLDERS' RIGHTS

Voting rights

Each share of Erste Group Bank AG entitles its holder to one vote at the Annual General Meeting. In general, shareholders may pass resolutions at an Annual General 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 Annual General Meeting that 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 Annual General Meeting that 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 General 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 AG requires a majority of at least 75% of the share capital present at an Annual General 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 AG. 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 Annual General Meeting or in certain cases by a resolution of the management board and the supervisory board.

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 Annual General Meeting per year (ordinary shareholders' meeting), which must be held within the first eight months of any financial year and cover at least the following issues:

_Presentation of certain documents
_Distribution of the annual profit
_Granting of discharge to the members of the management board and supervisory board for the preceding financial year.

Vienna, 28 February 2013

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 Group Compliance, Legal and Security, 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. Further key topics are procedures and measures to prevent money laundering and terrorist financing and to monitor sanctions and embargoes, as well as the establishment and coordination of measures to prevent financial crimes within Erste Group.

Directors' dealings

In accordance with the Austrian 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 establishing and upholding 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 the requirements of the International Financial Reporting Standards (IFRS), and in 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 included in the Notes beginning on page 147. 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 2012 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.